

***United States Court of Appeals  
for the Second Circuit***



**APPELLANT'S  
APPENDIX**





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74-1585

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P/S

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United States Court of Appeals  
FOR THE SECOND CIRCUIT

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SCM CORPORATION,

*Plaintiff-Appellant,*

*against*

XEROX CORPORATION,

*Defendant-Appellee.*

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ON APPEAL FROM THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF CONNECTICUT

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APPELLANT'S APPENDIX

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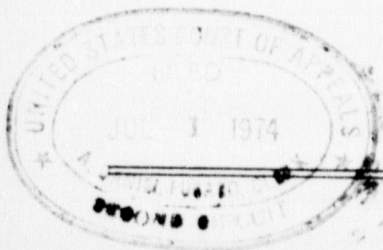
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CIVIL DOCKET 15807

UNITED STATES DISTRICT COURT

JON O. NEWMAN

Jury demand date: 11/12/73 by defendant

PROTECTIVE ORDER ENTERED 1/8/74

TITLE OF CASE	ATTORNEYS
SCM CORPORATION	For plaintiff: Ira B. Grudberg David L. Belt Jacobs, Jacobs & Grudberg 207 Orange Street New Haven, Conn. 06503
vs.	
XEROX CORPORATION	Stephen Rackow Kaye Ronald S. Rauchberg Proskauer Rose Goetz & Mendelsohn 300 Park Avenue New York, N. Y. 10022  Jerome Gotkin Widett & Widett 100 Federal Street Boston, Mass. 02110  Martin E. Goldstein—Admitted Ryder, McAulay, Fields, Fisher & Goldstein 20 Exchange Place New York, N. Y. 10005
	For defendant: Morgan P. Ames John F. Spindler Paul E. Knag Cummings & Lockwood 1 Atlantic Street Stamford, Conn. 06904

*Docket Entries.*

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 Stanley D. Robinson  
 Gerald Sobel  
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## DATE

## PROCEEDINGS

1973

- 7/31 Complaint, Motion for Preliminary Injunction, Motion for Conference and Notice of Motion, Motion for Appointment of Person (Jacob G. Miller) to Serve Process, and Order thereon (Markowski, C.), and interrogatories, filed and entered. Summons issued. M-8/6/73.
- 7/31 Return of Service of Jacob Miller, filed—Summons, Complaint, Motions and Interrogatories.
- 8/10 Notice to Clerk of Nature of Action, filed by Atty. Grudberg.
- 8/21 Appearances of Morgan P. Ames and John F. Spindler, both of Cummings & Lockwood, entered for defendant.
- 8/24 Stipulation filed that the defendant's time to answer or otherwise move against the complaint is extended to September 14, 1973. Ordered Accordingly. Markowski, C. M-8/27/73. Copies mailed.

*Docket Entries.*

## DATE

## PROCEEDINGS

1973

9/12 Motion to Admit Visiting Attorneys Francis T. Carr and Donald J. Lisa to represent defendant, filed by Attorney John F. Spindler together with Affidavit.

9/12 Motion to Admit Visiting Attorneys Milton Handler, Stanley D. Robinson and Gerald Sobel to represent defendant, filed by Attorney John F. Spindler, together with affidavit.

9/12 Court and Counsel in Chambers Conference re (1) Plaintiff's Motion for Preliminary Injunction; and (2) Plaintiff's Motion for Conference on Various Matters. Decision Reserved. Court opens for Motion of John F. Spindler to Admit Milton Handler, Stanley D. Robinson, Gerald Sobel, Francis T. Carr and Donald J. Lisa for the purposes of this case only. Motions granted and So Ordered. Newman, J. M-9/13/73.

9/13 Motions to Admit Visiting Attorneys and Orders thereon (copies) mailed to all counsel.

9/14 First Request by Xerox Corp. to Produce Documents Pursuant to Rule 34, filed.

9/14 Defendant's Motion to Strike the First and Second Claims and Part of the Third Claim of the Complaint and for a More Definite Statement of Part of the Third Claim of the Complaint and Notice of Motion, filed.

9/14 Memorandum in Support of Defendant's Motion to Strike, filed.

9/12 Plaintiff's Motions for Preliminary Injunction and for Conference on Various Matters, "Over to indefinite date." Newman, J. M-9/17/73.

9/21 SCM's Memorandum in Opposition to Defendant's Motion to Strike, filed.



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## PROCEEDINGS

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- 9/21 Motion to Admit Visiting Attorney Robert D. Fier and Affidavit filed by Attorney John F. Spindler.
- 9/21 Hearing on Defendant's Motion to Strike the First and Second Claims and Part of the Third Claim of the Complaint and for a More Definite Statement of Part of the Third Claim of the Complaint. Copy of complaint filed with Federal Trade Commission, Docket No. 8909, filed by Plaintiff. Decision Reserved. Newman, J. M-9/21/73.
- 9/21 Attorney Robert Fier admitted for purposes of this case only. Written motion endorsed "So Ordered." Newman, J. M-9/21/73. Copies mailed.
- 10/ 9 Memorandum of Decision on Defendant's Motion to Strike, entered. Xerox's motion to strike the first and second claims of the complaint and so much of the third claims as relies on the first claim is granted, as is the Xerox motion for a more definite statement with respect to the balance of the third claim, without prejudice to the filing of a new complaint by SCM within thirty days. Newman, J. M-10/9/73. Copies mailed.
- 10/18 Partial Answers and Responses to Certain of Plaintiff's Interrogatories and Document Requests Respecting Its First Claim, including confidential Exhibit I and Notice to the Clerk Pursuant to Local Rule 6(f), filed by plaintiff.
- 10/18 Court Reporter's Notes of proceedings of Sept. 21, 1973, filed. Gale, R.
- 10/19 Court Reporter's Transcript of proceedings of Sept. 21, 1973, filed. Gale, R.

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- 10/29 Defendant's Response to Plaintiff's Interrogatories and Document Requests Respecting Its First Claim, filed.
- 11/ 5 Amended Complaint with Certification of Service, filed by plaintiff.
- 11/ 5 Appearance of Atty. David L. Belt entered for plaintiff.
- 11/ 5 Motion for an Order Respecting Limited Disclosure of Certain Documents, Notice of Motion and Memorandum in Support of Motion with Exhibit C, filed by plaintiff.
- 11/12 Demand for Jury Trial, filed by defendant.
- 11/12 Answer and Counterclaim, filed by defendant.
- 11/13 Certification of Service re Answer and Demand for Jury Trial, filed by defendant.
- 11/16 Memorandum in Support of Plaintiff's Rule 42(b) Motion and Exhibits Thereto, filed under seal.
- 11/16 Motion for an Order Compelling Discovery, Notice of Motion and Affidavit in Support of Motion, filed by plaintiff.
- 11/16 Plaintiff's Rule 42(b) Motion for Separate Trial of the Issues of Xerox's Alleged Violations of the Antitrust Laws, and for Ancillary Relief; and the Support Grounds Therefor; and Motion for Preliminary Injunction and Notice of Motions, filed by plaintiff.
- 11/21 Memorandum in Opposition to Plaintiff's Motion for an Order Respecting Limited Disclosure of Certain Documents, filed by Defendant.

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- 11/26 (1) Plaintiff's Motion for an Order Respecting Limited Disclosure of Certain Documents; (2) Plaintiff's Motion for a Separate Trial of the Issues of Xerox's Alleged Violations of the Anti-trust Laws and for Ancillary Relief, and for Supporting Grounds Therefor; and (3) Plaintiff's Motion for an Order Compelling Discovery. All three motions "over to Dec. 7th (no one appeared)." Newman, J. M-11/26/73.
- 12/ 4 Defendant's Memorandum in Opposition to Plaintiff's Motion for Separate Trial and Ancillary Relief, filed.
- 12/ 4 Affidavits of Gerald Sobel and Kevin Carroll in Opposition to Plaintiff's Motion for an Order Compelling Discovery, filed.
- 12/ 4 Certificate of Service, filed.
- 12/ 5 Reply, filed by plaintiff.
- 12/ 6 Defendant's Interrogatory Numbers 1-32 to plaintiff, filed.
- 12/ 6 Second Request by Xerox Corporation to Produce Documents Pursuant to Rule 34, filed.
- 12/ 6 Plaintiff's Reply Memorandum in Support of its Motion for an Order Respecting Limited Disclosure of Certain Documents, filed.
- 12/ 7 Memorandum of SCM in Support of its Motion to Compel under Rule 37, filed.
- 12/ 7 Hearing on (1) Plaintiff's Motion for an Order Respecting Limited Disclosure of Certain Documents; (2) Plaintiff's Motion for a Separate Trial of the Issues of Xerox's Alleged Violations of

*Docket Entries.*

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1973

the Antitrust Laws and for Ancillary Relief, and for Supporting Grounds Therefor; and (3) Plaintiff's Motion for an Order Compelling Discovery. Decision Reserved on all three motions. Reply Briefs may be filed. Newman J. M-12/10/73.

12/10 Court Reporter's Notes of Proceedings of Dec. 7, 1973, filed. Gale, R.

12/19 Court Reporter's Transcript of proceedings of Dec. 7, 1973 filed. Gale, R.

12/20 Court Reporter's Transcript of proceedings of Dec. 7, 1973 (After Session), filed. Gale, R.

1974

1/ 7 Memorandum of Decision on Plaintiff's Motion for Severance of Issues and Other Relief entered. As more fully detailed in the foregoing memorandum, as to Part A. of SCM's motion, severance and designation of an early trial date of the anti-trust liability issues is denied without prejudice; as to part B, May 1, 1974 is tentatively set as a target date for a hearing on SCM's motion for a preliminary injunction, and a briefing schedule is established as to legal issues relevant to that motion; as to Part C, the request for severance of the patent issues is granted, and the request for a stay of proceedings with respect to those issues is denied. Newman, J. M-1/4/74. Copies mailed.

1/ 8 Ruling on Plaintiff's Motion to Compel Discovery, entered. Newman, J. Copies mailed.

1/ 8 Memorandum of Decision on Cross Motions for a Protective Order, entered. A protective order



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will be entered adopting substantially the provisions of the Xerox proposal, with the addition of a definitional phrase regarding confidential information and some minor and apparently non-controversial additions suggested in Xerox's memorandum. Newman, J. Copies mailed. M-1/14/74.

1/ 8 Protective Order, entered. Newman, J. Copies mailed. M-9/14/74.

1/11 Stipulation extending plaintiff's time within which to object, answer or otherwise plead to the Second Request for Documents and Interrogatories 1-32 (both served on or about December 3, 1973) until 30 days after date of the issuance of an order or decision on plaintiff's motion to stay proceedings with respect to the patent issues in this action, filed. So Ordered. Newman, J. M-1/11/74 copies mailed. M-1/14/74.

1/11 Stipulation filed that Xerox Corporation may amend its answer. So Ordered. Newman, J. M-1/11/74. Copies mailed.

1/11 Amendment to Answer, filed.

1/22 Motion for Rehearing Insofar as this Court's Decision of Jan. 3, 1974 Denied a Stay of Proceedings with Respect to Issues of Validity and Enforceability of Middleton-Reynolds '006 Patent, Memorandum in Support of Motion and Certification of Service re Motion and Memorandum, filed by plaintiff.

1/22 Consent to the granting of the motion of defendant for sealing of portions of the transcript of proceedings of Dec. 7, 1973, filed by plaintiff.

*Docket Entries.*

DATE

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1974

1/23

SCM's Application for a Thirty-Day Extension of Time as to Patent Discovery Demanded by Xerox, filed.

1/23

Further Reply to Answer as Amended, filed by Plaintiff.

1/24

Placed on Trial List.

1/23

Motion to Admit Visiting Attorney, Martin E. Goldstein, to represent plaintiff, filed by Attorney David L. Belt. So Ordered. Newman, J. M-1/24/74. Copies mailed.

1/25

Appearance of Atty. Martin E. Goldstein entered for plaintiff.

1/25

Motion Under Rule 37 to Compel Production of Documents in Response to Certain Portions of Xerox' First Request to Produce Documents Pursuant to Rule 34, Notice of Motion, Memorandum in Support of Motion and Affidavit of Julius Berman, filed by defendant.

1/28

Appearance of Atty. Paul E. Knag entered for defendant.

1/31

Opposition by Xerox to SCM's Application for Extension as to Patent Discovery, filed.

2/ 1

Motion for Extension of Time Within Which to File a Memorandum in Opposition to Defendant's Rule 37 Motion, filed by plaintiff.

2/ 1

Plaintiff's Motion for Extension of Time Within Which to File a Memorandum in Opposition to Defendant's Rule 37 until Feb. 15, 1974, endorsed as follows: "Motion granted by consent." Newman, J. M-2/4/74. Copies mailed.

*Docket Entries.*

DATE	PROCEEDINGS
1974	
2/ 4	Xerox' Memorandum in Opposition to SCM's Motion for Rehearing, filed.
2/ 4	Defendant's Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction, filed.
2/ 5	SCM's Memorandum in Opposition to Xerox's Contention that as a Matter of Law Injunctive Relief is not Available on SCM's Motion for a Preliminary Injunction and Findings of Fact and Conclusions of Law in Civil No. 73-2499 (Eastern District of Penna.), filed.
2/ 8	Notice to take Deposition of Dr. Maxwell Pollack on March 19, 1974 at Morristown, New Jersey, filed by defendant.
2/ 8	Notice to take Deposition of George S. Warner, et als. on Feb. 19, 1974, filed by defendant.
2/15	Defendant's Reply Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction, filed.
2/15	Plaintiff's Response to Defendant's First Request to Produce Documents Pursuant to Rule 34, filed.
2/15	Plaintiff's Opposition to Defendant's Motion under Rule 37 to Compel Production of Documents, filed.
2/15	Memorandum in Support of Plaintiff's Opposition to Defendant's Motion under Rule 37 to Compel Production of Documents, filed.
2/15	SCM's Reply Memorandum in Opposition to Xerox's Contention that as a Matter of Law, In-

*Docket Entries.*

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junctive Relief is not available on SCM's Motion for a Preliminary Injunction, filed.

- 2/22 Pre-Trial Ruling No. 5, entered. Plaintiff's motion for rehearing of its request to stay proceedings with respect to issues concerning the validity and enforceability of the Middleton-Reynolds '006 patent is denied, and plaintiff's motion for an extension of time until March 3, 1974, to object, answer or otherwise plead to defendant's Interrogatories and Second Request for Documents is granted. Newman, J. M-2/25/74. Copies mailed.
- 2/26 Notice of taking Depositions (8) of Herbert Price on April 30, 1974; William R. Brophy on May 2, 1974; John A. Van Auken on May 7, 1974; Charles S. Jenkins on May 21, 1974; Horace S. Beattie on May 23, 1974; E. Paul Charlap on June 4, 1974; Carl A. Kurhmeyer on June 18, 1974; and Hugh Bryce on June 20, 1974, filed by defendant.
- 3/ 1 Reply Affidavit of Julius Berman in Support of Xerox's Motion Under Rule 37 to Compel Production of Documents, filed.
- 3/ 1 Defendant's Reply Memorandum in Support of its Motion Under Rule 37 to Compel the Production of Documents, filed.
- 3/ 6 Notice to take Deposition of Kensuke Fukae on March 12, 1974, filed by defendant.
- 3/ 6 Hearing on Legal Issues Concerning Plaintiff's Motion for a Preliminary Injunction. Defendant shall promptly submit to the Court its position as



*Docket Entries.*

## DATE

## PROCEEDINGS

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to its "undertaking". The pending Rule 37 motion is submitted on the papers, by agreement of the parties. Decision Reserved. Court adjourned at 4:15 P.M. M-3/6/74. Newman, J.

- 3/ 8 Notice to take Deposition of Minolta Corporation, et al. on March 15, 1974, filed by defendant.
- 3/ 8 Renotice to take Deposition of Kensuke Fukae on March 18, 1974, filed by defendant.
- 3/12 Plaintiff's Response to Defendant's Interrogatories 1-32 to plaintiff, filed.
- 3/12 Plaintiff's Response to Defendant's Second Request to Produce Documents Pursuant to Rule 34, filed.
- 3/13 Court Reporter's Notes of proceedings held on Mar. 6, 1974 (Hearing on Legal Issues Concerning Plaintiff's Motion for a Preliminary Injunction), filed. Gale, R.
- 3/13 Court Reporter's Transcript of proceedings held on March 6, 1974, filed. Gale, R.
- 3/20 Defendant's Interrogatories, Set No. 1, filed.
- 3/21 Notice to Take Deposition of Leslie C. Overlock, on May 7, 1974, filed by Defendant.
- 3/22 Return of Service of Deposition Subpoena addressed to Charles S. Jenkins, 245 Leewood Drive, Lexington, Kentucky, and issued in the Eastern District of Kentucky, filed.
- 3/25 Renotice of Taking Deposition of William R. Brophy on May 2, 1974, filed by Defendant.
- 3/25 Notices (2) of Taking of Deposition of Sol M. Linowitz on April 15, 1974; and of Defendant

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## PROCEEDINGS

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Xerox Corp. by C. Peter McColough, on April 22, 1974, filed by Plaintiff.

3/28 Plaintiff's Answer to Defendant's Interrogatories 15-22 and 26-31 to Plaintiff, and Certificate of Service, filed.

4/ 1 Plaintiff's Answers to Defendant's Interrogatories 23-25 to plaintiff, filed.

4/ 1 Plaintiff's Supplemental Answer to Defendant's Interrogatory 31, to Plaintiff, filed.

4/ 1 Defendant's Motion to Extend the Time Within Which it may Move for Additional Time to Respond to Plaintiff's Interrogatories under Order of Jan. 8, 1974, from April 1, 1974 to May 15, 1974, Notice of Motion and Affidavit of John L. Lee, filed.

4/ 1 Defendant's Answers and Responses to Plaintiff's Interrogatories and Document Requests Respecting its First Claim, filed.

4/ 1 Exhibit B to Defendant's Answers and Responses of April 1, 1974 to Plaintiff's Interrogatories and Document Requests Respecting its First Claim, filed in sealed envelope.

4/ 4 Notice of Taking Deposition of Sol M. Linowitz on May 7, 1974, filed by Plaintiff.

4/ 9 Order entered extending defendant's time to move for additional time to respond to the interrogatories in Plaintiff's Interrogatories and Document Requests Respecting its First Claim due June 15, 1974 under the Order of Jan. 8, 1974, from April 1, 1974 to and including May 15, 1974. Newman, J. M-4/9/74. Copies mailed.

*Docket Entries.*

## DATE

## PROCEEDINGS

1974

- 4/16 Stipulation filed that (1) SCM's objections, if any, to Defendant's Interrogatories, Set No. 1, served March 19, 1974, will be served by April 19, 1974, and filed promptly thereafter; and (2) The time within which SCM may answer those of said interrogatories to which it does not object is extended to and including the earlier of (a) June 15, 1974 or (b) two weeks prior to the scheduled commencement of any court hearing which may be ordered on SCM's motion for preliminary injunction. So Ordered. Newman, J. M-4/16/74. Copies mailed.
- 4/17 Transcript of Pollack Deposition, filed.
- 4/18 Motion for the Appointment of a Special Master to Supervise Discovery Proceedings and Memorandum in Support of Motion, filed by plaintiff.
- 4/19 Pre-Trial Ruling No. 6, entered. Newman, J. M-4/19/74. Copies mailed. (Motion for Preliminary Injunction by SCM denied).
- 4/19 Pre-Trial Ruling No. 7, entered. Newman, J. M-4/19/74. Copies mailed. (Re: Rule 37 Motion filed by Xerox).
- 4/23 Defendant's Response to Plaintiff's Request for Documents in Its March 22, 1974 Notice of Deposition, filed.
- 4/23 Plaintiff's Objections to Defendant's Interrogatories Set No. 1, Dated March 19, 1974, filed.
- 4/30 Letter dated March 8, 1974—"written statement of the undertakings Xerox Corporation is making with respect to SCM's motion for a preliminary injunction," filed.

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4/30	Letter dated January 18, 1974—"concerning the preliminary injunctive relief sought by SCM and Xerox's asserted legal defenses to the granting of that relief," filed.
4/30	Letter dated February 22, 1974 correcting reply memorandum of SCM filed February 15, 1974, filed.
4/30	Copy of Employee Patent and Confidential Information Agreement "Under Protective Order," filed.
4/30	Exhibits to Memorandum in Support of SCM's Rule 42(b) Motion, filed.
4/30	Exhibits 11, 12 and 13 to Memorandum in support of SCM's Rule 42(b) Motion, filed.
4/30	Exhibit A Xerox 1972 Long Range Plan (Extracts), filed.
4/30	Exhibit Xerox Documents regarding Capabilities of Potential Competitors, filed.
5/ 1	Notice of Appeal from the Decision and Order (denominated as "Pre-Trial Ruling No. 6") entered on April 19, 1974, filed by plaintiff. Copies mailed to U.S.C.A. and to all counsel.
5/ 2	Xerox' Memorandum in Opposition to SCM's Motion for the Appointment of a Special Master to Supervise Discovery, filed.
5/ 7	Stipulation Concerning SCM's Responses to Defendant's Interrogatory Nos. 1-32 and Second Request to Produce Documents, filed by defendant.
5/ 9	Notice to take Deposition of Gabriel S. Carlin on June 4, 1974 filed by defendant.



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## PROCEEDINGS

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- 5/ 9 Letter supplementing oral argument on behalf of Xerox in connection with Motion for an Order Respecting Limited Disclosure of Certain Documents, etc., from Attorney Gerald Sobel to Judge Newman, filed.
- 5/ 9 Letter citing case as additional argument re Motion for an Order Respecting Limited Disclosure, etc., from Attorney Rauchberg to Judge Newman, filed.
- 5/10 SCM's Reply Memorandum in Support of its Motion for the Appointment of a Special Master to Supervise Discovery, filed.
- 5/15 Motion for One Month Extension of Time to Complete Response to Certain of Plaintiff's Interrogatories with Affidavit of John L. Lee attached, filed by defendant.
- 5/20 SCM's Memorandum in Response to Xerox's Motion of May 15, 1974 for a Further Extension of Time to Respond to SCM's Interrogatories, filed.
- 5/20 Defendant's Motion for One Month Extension of Time to Complete Response to Certain of Plaintiffs' Interrogatories, endorsed as follows: "Motion Granted on consideration of the papers." Newman, J. M-5/21/74. Copies mailed.
- 5/31 Notice to take Deposition of John H. Dessauer on July 8, 1974, filed by plaintiff.
- 5/31 Notice to take Deposition of John H. Dessauer on July 8, 1974, filed by plaintiff.
- 5/31 Notice to take Deposition of Lewis E. Walkup on August 5, 1974, filed by plaintiff.

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Complaint—Filed July 31, 1973.

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United States District Court  
FOR THE DISTRICT OF CONNECTICUT

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SCM CORPORATION,	} Civil No.
<i>against</i>	
XEROX CORPORATION,	
Defendant.	

COMPLAINT

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*Complaint.*

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*Complaint.*

**United States District Court**  
**FOR THE DISTRICT OF CONNECTICUT**

SCM CORPORATION,	} Civil No.
<i>against</i>	
XEROX CORPORATION,	
Defendant.	

**COMPLAINT**

Plaintiff SCM Corporation ("SCM"), by its attorneys, for its complaint against Xerox Corporation ("Xerox"), on knowledge as to matters pertaining to itself and on information and belief as to all other matters, alleges:

**Jurisdiction, Venue and the Parties**

1. This action concerns Xerox's unlawful monopolization in violation of Section 2 of the Sherman Act (15 U.S.C. § 2), of the skill and technology of plain paper office copying, and therefore the manufacture and marketing of plain paper office copiers. The monopoly was achieved and is being maintained by Xerox's exclusionary exploitation of the skill and technology of plain paper office copying, built on a foundation of basic patents, development and improvement patents and confidentially-maintained know-how accumulated by acquisition from others and through agreements with others.

2. This action also concerns the unlawfulness of those acts and practices by Xerox under:

(a) Section 1 of the Sherman Act (15 U.S.C. § 1), which condemns unreasonable restraints of trade or competition accomplished by contracts, agreements, conspiracies or combinations (whether or not Xerox has concurrently violated the anti-monopoly provisions of Section 2 of the Sherman Act); and

(b) Section 7 of the Clayton Act (15 U.S.C. § 18), which condemns acquisitions having the probable effect of substantially lessening competition or tending to create

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*Complaint.*

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a monopoly in any line of commerce (whether or not the acquisitions concurrently violate either or both of Sections 1 and 2 of the Sherman Act).

3. The acts and practices of Xerox alleged in this complaint have been committed in interstate commerce and in American foreign commerce.

4. This court has jurisdiction of this action to adjudicate SCM's claims for injunctive and damage relief under Sections 4 and 16 of the Clayton Act (15 U.S.C. §§ 15 and 26), that by reason of Xerox's violations of the antitrust laws as alleged in this complaint, SCM has been injured in its business or property and is continuing to suffer irreparable injury.

5. Venue is properly in this District under Section 12 of the Clayton Act (15 U.S.C. § 22), because Xerox is found and transacts business and its executive offices are located within this judicial district.

6. Both SCM and Xerox are corporations organized and existing under the laws of the State of New York. As more fully alleged in this complaint, Xerox is engaged in the manufacture and marketing of plain paper office copiers; and SCM is engaged in the manufacture and marketing of coated paper office copiers and has attempted and is attempting to develop and market a plain paper office copier.

**The Ultimate Injurious Effects of Xerox's Monopolistic and Anticompetitive Acts and Practices**

7. The ultimate injurious effects of Xerox's acts and practices alleged in this complaint have been and will be to:

(a) restrain competitive research and development by SCM and others with respect to the skill and technology of plain paper office copying;

(b) preserve the enormous lead which Xerox presently possesses in the skill and technology of plain paper office copying;

(c) exclude or restrain SCM and other potential competitors from the manufacture and marketing of plain paper office copiers;

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*Complaint.*

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(d) maintain Xerox's monopolistic position with respect to plain paper office copying; and

(e) enable Xerox to maintain that monopolistic control to extract monopoly profits.

8. Unless Xerox's acts and practices alleged in this complaint are declared to be against public policy and illegal, and unless they are enjoined and their effects dissipated and nullified during the pendency of this action and permanently:

(a) SCM and others who are attempting to compete with Xerox will continue to be irreparably injured because of Xerox's anticompetitive and monopolistic acts and practices;

(b) the hundreds of thousands of users of plain paper office copiers (including state and federal governmental agencies, business and professional organizations, and educational and charitable institutions) will be deprived of the benefits of competition and will continue to bear the burden of Xerox's anticompetitive and monopolistic acts and practices; and

(c) the public, including the millions of consumers throughout the United States who deal directly or indirectly with users of plain paper office copiers, will bear the burdens Xerox presently imposes on such users, and on SCM and other companies attempting to compete with Xerox.

SCM's FIRST CLAIM: FOR PROSPECTIVE INJUNCTIVE  
RELIEF AGAINST XEROX'S MONOPOLIZATION AND  
ANTICOMPETITIVE ACTS AND PRACTICES WITH RE-  
SPECT TO PLAIN PAPER OFFICE COPYING

**Xerox's Unlawful Acquisition and Perpetuation of Control  
Over the Skill and Technology of Plain Paper Office  
Copying and, Therefore, Over the Manufacture and  
Marketing of Plain Paper Office Copiers**

9. Plain paper office copiers are machines which conveniently and cleanly produce copies of documents on plain or bond paper by electrostatic means, and without the use of stencils, offset masters or other methods.



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10. Generally, users of office copiers strongly prefer plain paper office copiers to coated paper office copiers (machines which make copies on specially coated and chemically treated paper) because of the better appearance, weight, useability and other advantageous features of plain or bond paper copies.

11. At all times in the decade from 1960 to 1970 (i.e., from the time Xerox introduced its first plain paper office copier until IBM introduced its first plain paper office copier), Xerox possessed a 100% market share of the businesses of manufacturing and marketing plain paper office copiers in the United States. During that period in the United States it was the only manufacturer and the only marketer of plain paper office copiers. Xerox's share of these markets since IBM's entry in 1970 has been and continues to be more than 95%.

12. As publicly expressed by its chief executive officer, the only "real competition" Xerox has faced with respect to plain paper office copiers has been "from IBM". In 1972, as he stated, IBM's competitive impact on Xerox had been "very very small". In 1973, as he stated, that competitive impact continued to be "minimal". These and other statements by him and other present and former Xerox officials as alleged in this complaint, were made on Xerox's behalf, and such officials were authorized to make them on Xerox's behalf.

13. In the decade in which Xerox had no plain paper office copier competitor, its annual revenues from all of its plain paper office copying activities rose from less than \$4 million in 1960 to about \$1.3 billion in 1970. During that period its profits before taxes on such revenues rose from less than \$1 million in 1960 to about \$400 million in 1970.

14. Since 1970 (the year of IBM's entry), Xerox's annual revenues and profits from its plain paper office copying activities have continued to soar. Its revenues rose from about \$1.3 billion in 1970 to more than \$1.5 billion in 1971 and to more than \$1.9 billion in 1972. Its profits before taxes rose from about \$400 million in 1970 to about \$450 million in 1971 to about \$550 million in 1972.

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15. Xerox's total profits before taxes from its plain paper office copying activities in the period 1960-1972 amounted to more than \$2.7 billion, of which about \$1.7 billion was earned in the period 1960-1970, and of which about \$1 billion was earned during the two years of 1971 and 1972.

16. Xerox's monopoly with respect to plain paper office copiers and its extraordinary growth in revenues and profits is and has been achieved by its exclusionary exploitation of the skill and technology of plain paper office copying, which was built on a foundation of basic patents, development and improvement patents and confidentially maintained know-how accumulated by acquisition from others and through agreements with others.

**A. Xerox's acquisitions of patents and technology from Battelle, Horizons, and others, and its control by 1961 of all the commercially known means to produce plain paper office copiers.**

17. Plain paper office copying owes its origin to the four basic Carlson patents, embodying document copying by electrostatic means, issued between 1939 and 1944 and which expired between 1956 and 1961.

18. In 1944, Battelle Memorial Institute, Inc. or Battelle Development Corporation (both hereafter collectively referred to as "Battelle") entered into an agreement with Carlson to attempt commercialization of the four basic Carlson patents, and to engage in further research and development concerning copying of documents by electrostatic means.

19. The copying of documents by electrostatic means (whether producing plain paper or coated paper copies) is hereafter referred to as "xerography", the name given in 1948 by Battelle and since used by Xerox with respect to that means of copying documents. In 1948, Xerox was known as the Haloid Company. Its name was changed to Haloid Xerox, Inc. in 1958 and to Xerox Corporation in 1961.

20. In 1948, Xerox and Battelle entered into an agreement under which Xerox obtained a world-wide exclusive license with respect to the four basic Carlson patents,

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other Battelle development and improvement United States patents, and their numerous foreign counterparts, all in the field of xerography. Under that agreement Xerox also secured the sole right to obtain exclusive world-wide licenses with respect to any patents thereafter issued to or acquired by Battelle involving xerography.

21. In 1956 Xerox and Battelle entered into another agreement. Under that agreement, Xerox acquired exclusive ownership and control of all of the skill and technology in the field of xerography which Battelle had developed by that time and which it has developed since that time.

22. Under that agreement, as of January 1, 1956 Xerox purchased from Battelle the four basic Carlson patents; and as of January 1, 1959 it purchased from Battelle 645 U.S. and foreign development and improvement patents and patent applications, all in the field of xerography.

23. The total consideration paid or conveyed to Battelle by Xerox under the 1956 agreement (over the ten-year payout period ending April 1, 1966 as specified in the agreement) for its acquisition of ownership of Battelle's issued patents, patent applications and other technology in the field of xerography, was approximately \$69 million, as valued by Xerox in 1966.

24. In addition, under the 1956 agreement, Xerox was granted the option to acquire exclusive ownership of all patents and know-how in the field of xerography secured or developed by Battelle in every succeeding year in which Xerox paid Battelle a specified annual amount to support its research in that field. In each of the 17 years since 1956, Xerox has exercised that option by making the required annual payments to Battelle, and has thereby acquired exclusive ownership of all such Battelle patents and know-how.

25. After the execution of its 1956 agreement with Battelle, Xerox adopted and ever since has followed the policy, as publicly expressed by its chief executive officer in 1961, of "steadily strengthening [its] patent position."

26. During 1960, in implementing that policy, Xerox entered into agreements with Horizons, Inc. Horizons was



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engaged in technological research in the field of xerography. Xerox entered into those agreements and became "associated with Horizons because", as publicly expressed by Xerox's chief executive officer in 1961, Horizons "did some work independently in xerography and had access to certain patents that we [Xerox] ultimately acquired."

27. Under those agreements with Horizons, Xerox purchased a number of United States and foreign patents and patent applications in the field of xerography.

28. Since 1960, Horizons has engaged in research in the field of xerography for Xerox's sole and exclusive benefit and use, in accordance with the long-term research obligations undertaken by it in the 1960 agreements with Xerox.

29. In carrying out its continuing policy of "strengthening its patent position," Xerox also purchased xerographic patents from others, including Walt Disney Productions and Bell & Howell.

30. In addition, it obtained access to other xerographic technology by entering into agreements with others, including RCA, IBM, GE, Kalle, Azoplate, Keuffel & Esser and Bell & Howell, in which Xerox extended restricted xerographic patent licenses, but obtained in exchange unrestricted grantback rights with respect to xerographic patents and technical information developed by such licensees. These agreements did not permit the licensees to use the patents in connection with plain paper office copying. Thus, these agreements continued Xerox's exclusion of others from practicing the skill and technology of plain paper office copying, while further enlarging Xerox's right to use newly developed xerographic patents and technical information in connection with its plain paper office copying activities.

31. By March of 1961 (in which year the last of the basic Carlson patents had expired), Xerox had acquired ownership of 998 U.S. and foreign development and improvement patents and patent applications in the field of xerography. By March of 1963, it had acquired ownership of 1293 such patents and patent applications. These patents and patent applications were, as Xerox stated in its prospectuses issued in April, 1961 and December, 1963, "of



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material importance" to its xerographic business activities. Revenues from those activities had risen by 1963 to an annual amount in excess of \$100 million from less than \$4 million in 1960.

32. By virtue of its purchases and acquisitions in the field of xerography of the four basic Carlson patents, the many Battelle and Horizons patents and patent applications, other Battelle and Horizons technology, ownership or use of the patents and technology of others, and the exclusive right to new Battelle and Horizons technology and patents to be developed in the future, by 1961 Xerox had obtained exclusive world-wide control over the skill and technology with respect to plain paper office copying.

33. By 1961 and no later than 1963, Xerox had acquired, and recognized that it had acquired monopoly power which it would be in a position to exploit for the coming decades.

(a) In 1961, as its chief executive officer publicly stated, Xerox, with Battelle "and perhaps others," would be the ones helping to make the decisions about "the kind of markets there will be in 1970 and 1980 throughout the world in the field of visual communications."

(b) Also by 1961, the year in which the last of the four basic Carlson patents had expired, Xerox's continuing acquisition of hundreds of patent applications and newly-issued development and improvement patents had, as its chief executive officer publicly stated in that year, "thus *re-established* a powerful patent structure which affords [Xerox] protection almost equalling what it had during a period of basic patent coverage." (Emphasis his.)

(c) In 1963, as he publicly stated, Xerox had "re-created" a "powerful" patent structure which assured it "the right to go ahead with [its] own programs without much likelihood of being blocked", and which required others who desired to seek "this particular path" to "tread [this path] with us."

(d) Later that year and in early 1964, Xerox determined not to permit SCM to tread that path when, as more fully alleged below, it refused SCM's requests for a patent license with respect to plain paper office copiers.

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34. At all times since 1960, Xerox's market position has been a consequence of its patents and technical know-how.

(a) As expressly admitted by Xerox in its Answer to the complaint against it by the Federal Trade Commission, a primary factor contributing to its present market position is "patents issued by the United States Government".

(b) The ability of Rank-Xerox (more fully described below) since 1962 to manufacture and sell xerographic copying equipment, as Xerox also admitted in that Answer, "has at all times been and continues to be attributable to the patents and technical know-how contributed by Xerox." Xerox's own ability to manufacture and sell such equipment has at all times been and continues to be attributable to the same factors.

**B. Xerox's Battelle, Horizons and other acquisitions and agreements violate the antitrust laws.**

35. Nothing contained in the Patent Act provides anti-trust immunity to Xerox with respect to the methods employed by Xerox (acquisitions and exclusive and other agreements) to perfect and maintain an economic monopoly over the manufacture and marketing of plain paper office copiers.

36. Even if all the patents involved were validly issued, Xerox's aggregation by means of acquisitions and agreements of thousands of patents, patent applications and other technological assets to produce economic monopoly power over the manufacture and marketing of plain paper office copiers cannot avoid the prohibitions of:

(a) Sections 1 or 2 of the Sherman Act, condemning acquisition agreements and other agreements which have the effect of unreasonably restraining trade or competition or the effect of perfecting or maintaining a monopoly in any part of commerce; or

(b) Section 7 of the Clayton Act, condemning asset acquisitions, including acquisitions of patents, which have the probable effect of substantially lessening competition or tending to create a monopoly in any line of commerce.

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37. On the indisputable facts so far alleged, Xerox's acquisitions and agreements have resulted in the proscribed effects and constitute violations of each of those provisions of the antitrust laws.

**C. Since 1961 Xerox has unlawfully maintained and enlarged its acquired monopoly power over the skill, technology, manufacture and marketing of plain paper office copiers.**

38. By reason of its Battelle, Horizons and other acquisitions and agreements, Xerox had acquired by 1961 and no later than 1963 (as a matter of objective fact and by its own admissions), the monopolist's power to regiment the entire plain paper office copying business; to perpetuate its control over that entire business long after the basic patents had expired; systematically to funnel the fruits of invention of an entire technological field of endeavor into its own hands; to suppress and restrain any potential or actual competition in the manufacture and marketing of plain paper office copiers; and to perfect and enlarge an industrial monopoly with respect to such businesses.

39. Since 1961 Xerox has engaged in various acts and practices as alleged below which have had the effects of maintaining and increasing the size and the scope of its unlawful monopoly with respect to the skill, technology, manufacture and marketing of plain paper office copiers.

40. Whether or not those acts and practices were motivated, in whole or in part, to anticipate and meet increasing demands for plain paper office copiers, nevertheless, under Section 2 of the Sherman Act they had, and continue to have the unlawful effects of suppressing, foreclosing and restraining competition and of maintaining and increasing the size and scope of Xerox's monopoly.

41. Because the Battelle, Horizons and other acquisitions and agreements themselves erected a great barrier to the possibility of any competition, the effect of Xerox's acts and practices since 1961 has been to add additional barriers against competitive entry and to suppress, fore-



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close and restrain competition with respect to the manufacture and marketing of plain paper office copiers and the development by others of the skill and technology necessary to engage in those businesses.

42. As more fully alleged below in paragraphs 43 to 142, the acts and practices of Xerox, which, since 1961, have had the monopolistic and anticompetitive effects previously described, include:

(a) its continuing accumulation and use of xerographic patents and technology developed by others, and its continuing realization of the benefits of exclusive and restrictive agreements with others entered into prior and subsequent to 1961;

(b) its constant expansion of research and development activities in the field of xerography carried on internally and by others pursuant to exclusive agreements, to the point where, as it stated in 1973, Xerox presently "continues to spend hundreds of millions of dollars for research and development on xerography";

(c) its requirement that its many thousands of research, scientific and technical personnel agree not to engage in any activities in the field of xerography for a period of two years after termination for any reason of their employment with Xerox;

(d) its exclusive use of its skill and technology (the foundation of which was acquired from Battelle, Horizons and others) to generate additional patents; to produce new and improved plain paper office copiers in anticipation of future market demands; and to produce a broad product line of plain paper office copiers;

(e) its exclusive use of that skill and technology as an underlying factor in its constant expansion of its manufacturing and marketing facilities in anticipation of increasing present and future market demands for plain paper office copiers;

(f) its unwillingness on any basis until late 1970 and early 1971 to offer or grant patent licenses to SCM or anyone else with respect to the manufacture of plain paper office copiers;

(g) its illusory offers, from an economic, competitive and technological standpoint, in late 1970 and 1971 to



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SCM and others, of patent licenses on certain restricted terms and conditions with respect to three of the patents it had acquired from Battelle; and the like character of the patent license offers made recently by Xerox in 1973 to SCM and others with respect to those three patents, and a fourth which it had acquired from Horizons;

(h) its use in its own plain paper office copiers of the inventions claimed in only a small fraction of its more than 1700 United States patents; with the balance of those patents having the effect of "blocking patents" preventing others from "designing around" the few patents Xerox does use, thereby providing Xerox with a powerful patent thicket against xerographic innovation and development by anyone else;

(i) its refusal to identify the patents it claims to use in each of its plain paper office copiers despite its undertaking to do so as contained on legends affixed to those copiers ("Manufactured Under One or More U.S. Patents Owned or Controlled by Xerox Corporation—List Supplied on Request"), having the effect of preventing others from determining which aspects of Xerox's copiers are in the public domain, and which aspects Xerox claims are not in the public domain;

(j) its threats of patent infringement suits against potential competitors, including SCM, with respect to plain paper office copiers, and the manner in which those threats have been made and carried out; and

(k) in concert and combination with the Rank Organisation, Rank-Xerox, Fuji Photo Film and Fuji-Xerox, through anticompetitive agreements among them, and in restraint of American interstate and foreign commerce, its establishment and perpetuation of world-wide control over the skill and technology of plain paper office copying and a world-wide division of territories with respect to the manufacture and marketing of plain paper office copiers.

**1. The Monopolistic and Anticompetitive Effects of Xerox's Research and Development Activities Relating to Plain Paper Office Copying.**

43. From 1948 until 1956 (in which period Xerox entered into the Battelle license, acquisition and exclusive research

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agreements) Xerox carried on relatively little xerographic research and development, and instead relied primarily on Battelle for those activities. Xerox's total expenditures for research and development in all fields of technological endeavor during the eight years of 1948 to 1955 (when it was engaged primarily in non-xerographic business activities) amounted to about \$4.5 million or about an annual average of under \$600,000.

44. During the five years from 1956 through 1960, although Xerox increased its expenditures for xerographic research and development, it continued to rely on Battelle and others. Excluding research sponsored and paid for by the federal government and others, but including payments to Battelle, Xerox's total expenditures for xerographic research and development rose from about \$1 million in 1956 to about \$3 million in 1960.

45. Since 1961, on the foundation of the patented and unpatented skill and technology acquired from Battelle, Horizons and others, and its exclusionary exploitation of the only known commercial means to manufacture plain paper office copiers, Xerox's annual expenditures for xerographic research and development carried on internally and in conjunction with others pursuant to agreements, have risen to enormous dollar proportions.

46. Total expenditures by Xerox for all of its research and development activities during the five-year period from 1961 to 1965 (which according to statements issued on its behalf were primarily related to xerography) continued to rise, reaching an annual amount in 1965 (the last year of the ten-year payout period under the Battelle 1956 agreement) of \$38 million.

47. Since 1965 its annual expenditures for research and development in all fields (which have related primarily to plain paper office copiers and xerography) rose even more sharply. In 1966 such expenditures amounted to about \$53 million; they steadily rose until in 1972 they reached about \$132 million. During the 1966-1972 period such expenditures by Xerox totalled about \$581 million.

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48. In 1973, Xerox's present annual spending for xerographic research and development, as Xerox has stated in its Answer to the complaint of the Federal Trade Commission, amounts to "hundreds of millions of dollars."

49. Xerox's annual expenditures in 1972 and 1973 for research and development are greater than the total annual operating revenues produced by any other company, except one, from the manufacture and marketing of any type of office copier.

50. Xerox's ability to carry on and fund its research and development activities since 1961 is and has been a result of the great increases in its total operating revenues from its plain paper office copying businesses. Those research and development expenditures have never exceeded 10% of Xerox's consolidated operating revenues. Since 1966, Xerox's research and development expenditures have declined from about 7% to a present expenditure in 1972 and 1973 of less than 5.5% of its annual consolidated operating revenues.

51. The number of Xerox employees engaged in research and development activities has risen from 29 in 1950 to 270 in 1960 to a present number in excess of 4,000. In addition, since 1961 Xerox has had, and presently has, agreements with many others who are not its employees and who have been and are engaged for Xerox's sole benefit in research and development relating to plain paper office copying and xerography.

52. Xerox has required that each of its many thousands of research, scientific and technical personnel agree in writing as follows:

"For the period of two years following termination of [my] employment [by Xerox Corporation] for any reason, I will not independently engage in xerography or, directly or indirectly, serve or advise in xerography or be employed in xerography by any individual, firm or corporation."

53. The effects of those exclusionary agreements have been and are to restrain the individuals involved from pursuing their livelihoods elsewhere in their field of ex-



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perience; to prevent potential competitors from competing for their lawful services; to lock many of them into permanent employment with Xerox; to protect Xerox's control over the skill and technology of plain paper office copying and xerography by insuring that Xerox alone will obtain the use and benefit of their skills and talents; and thereby to further suppress and restrain competition with respect to the development of the skill and technology of plain paper office copying, and in turn the manufacture and marketing of plain paper office copiers.

54. The patents generated by Xerox's research and development activities, internally and in conjunction with others pursuant to agreement, as an addition to the patents acquired from Battelle, Horizons and others, have resulted in Xerox's ownership or control of more than 1700 United States patents, of which presently about 1200 are unexpired, and its acquisition of ownership or control of many thousands of foreign patents relating to xerography. In addition, Xerox owns or controls more than 200 pending applications for United States patents and numerous pending applications for foreign patents in the field of xerography.

55. Xerox has thus continued and is continuing to implement its policies, publicly expressed in 1961, of steadily strengthening its patent position, of reestablishing patent coverage to the exclusion of others and of securing the sole use of technological advances in xerography which have been made as the result of its own research and that of others.

56. The vast majority of the issued xerographic patents owned or controlled by Xerox are not, and have not been, used by Xerox in the manufacture of its plain paper office copiers, and have the effect of "blocking patents" restraining entry into plain paper office copying by others. When use or non-use of a patent is referred to in this complaint, it means the use or non-use of the invention claimed and covered in such patent.

57. Another effect of Xerox's xerographic research and other patent activities since 1961, as an addition to the "powerful patent structure" it had acquired by that time, has been to increase the difficulty and expense to any potential competitor of designing around Xerox's increasing



number of patents. Another effect has been to make it increasingly difficult for anyone to undertake the expense, effort and risk of challenging the validity of any of those patents in protracted patent infringement litigation, which Xerox promised SCM and others would ensue if they attempted to manufacture plain paper office copiers.

58. A further effect of Xerox's perpetuation since 1961 of its acquired monopoly power over the skill and technology of plain paper office copying has been Xerox's ability to determine the pace and direction of scientific inquiry and endeavor in the field of xerography, in large part free from the influence of competitive efforts of others.

59. Still another effect since 1961 of Xerox's research and other patent activities has been to increase further Xerox's present and future technological lead over any potential competitor, a technological lead which it initially possessed by 1961 as a result of its Battelle, Horizons and other acquisitions and agreements. The even greater technological lead which Xerox now possesses has the effect of suppressing, foreclosing and restraining competition because any potential competitor must consider the risk that by the time its product reaches the marketplace that product might be competitively obsolete.

60. Xerox recognizes that clear effect.

(a) In 1971, as stated in that year by its chief executive officer, Xerox's research and development was not concentrated on the office copiers of the present, but on those new or improved office copiers Xerox would be manufacturing and marketing five years hence.

(b) Presently, as stated by Xerox's President on May 24, 1973, Xerox expects that within the next two years alone it "will be announcing or introducing as many as 12 to 15 new products", several of which are "major . . . additional second-generation xerographic devices."

**2. The Monopolistic and Anticompetitive Effects of Xerox's Expansion of its Product Line and of its Manufacturing, Service and Marketing Facilities and of its Personnel.**

61. Based on the patented and unpatented skill and technology acquired from Battelle, Horizons and others and its exclusionary exploitation of the only known commercial

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means to manufacture plain paper office copiers and, on that foundation its research and development activities, Xerox has greatly expanded its product line of plain paper office copiers.

62. Xerox presently manufactures and markets a broad product line of plain paper office copiers for medium and high monthly usage. According to Xerox, medium usage involves from 3000 to 20,000 copies per month, and high usage involves in excess of 20,000 copies per month. Xerox's broad product line includes plain paper office copiers which operate at low, medium and high copying speeds ranging from 330 copies per hour to 3600 copies per hour.

63. In 1960, Xerox introduced its first plain paper office copier, the Model 914. It is a console model machine with a speed of 420 copies per hour. It copies documents and books without requiring the original to be fed into the machine. (Such copiers are termed "book copiers.") After its introduction in 1960, the 914 gained immediate and widespread user acceptance. Xerox presently continues to market the 914, and with its now relatively low copying speed, it is operated for medium monthly usage.

64. In late 1963, Xerox introduced its Model 813, a table top machine which was, as Xerox stated, "designed for lower volume applications and as a supplement to existing 914 Copier installations." It makes copies at the rate of 330 per hour. It cannot make copies from books because the document to be copied must be fed into the machine. As did the 914, the 813 gained immediate and widespread user acceptance after its introduction. Xerox presently continues to market the 813 model.

65. Xerox's marketing of the 914 and the 813 was responsible for most of Xerox's plain paper office copier revenues during the period between 1960 and 1965.

66. All or most of the patents used in manufacturing Xerox's Models 914 and 813 were obtained by Xerox from Battelle, Horizons or others. One of the patents acquired from Battelle (the Bixby '906 relating to the selenium photoconductor) is a key patent used by Xerox in all of its plain paper office copier models.

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67. SCM does not know (for the reasons alleged in paragraphs 121-123 below), the full extent to which Xerox uses other patents obtained from Battelle, Horizons or others in those of its models introduced since 1965. For the same reasons, SCM does not know the extent to which Xerox uses patents generated by its own internal research and development in those of its models introduced since 1965.

68. In 1966 Xerox introduced its Model 720 and in 1972 its Model 1000, improved versions of the 914. In 1966, it introduced its Model 660, an improved version of the 813. These five models, collectively called "first generation copiers" by Xerox, are all still marketed by Xerox today.

69. Since 1965 Xerox has introduced and marketed other types of plain paper office copiers (some of which it has called "copier-duplicators," and others of which it has called "second generation copiers"), possessing increased capabilities.

70. In 1965, Xerox introduced its Model 2400, a larger machine than those in the 914 and 813 families, and with a speed of 2400 copies per hour. Subsequently improved versions of the 2400 were introduced by Xerox and are its Models 3600-I and 3600-III, which have speeds of 3600 copies per hour, and the Model 7000, which has the same speed and which can make copies at full size or at several selected reduced sizes. These are the models Xerox has called "copier-duplicators." They were designed for high monthly usage and have become Xerox's biggest revenue producers.

71. In 1971, Xerox began the introduction of what it terms "second generation copiers," that is, copiers with advanced features not found on other Xerox copiers, and which were the consequence of research and development initiated several years before. Xerox's "second generation copiers," of which so far there are three (the Models 4000, 3100 and 6500) are the result of Xerox's policy, as its chief executive officer boasted in 1971, to concentrate its xerographic research and development activities at any particular time on the office copiers of five years hence.

72. In 1971, Xerox began marketing its Model 4000, which it has described as an advanced book copier with

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a speed of 2700 copies per hour. Its features include automatic copying on both sides of the paper and pushbutton selection of either of two sizes of copy paper.

73. In April, 1973, Xerox announced the introduction of its Model 3100, a mobile plain paper office copier with a copying speed of 1200 per hour, designed for medium monthly usage.

74. The Model 3100 "is expected", as a Xerox vice-president has publicly stated, "to become one of our biggest revenue producers throughout" the decade of the 1970's. Xerox anticipates that for medium volume usage, the 3100 ultimately will replace its 660, 720 and 914 units, and some of its 1000 units.

75. In May, 1973, Xerox announced the introduction of the third of its "second generation copiers," its Model 6500. The 6500 took five years to develop, at a cost to Xerox of about \$40 million. The 6500 is a color copier, employing electrostatic means and able to make copies in seven colors.

76. The achievement by Xerox of its present broad product line of plain paper office copiers, and its expanding technological lead, was the result of the patents and technology it initially acquired from Battelle, Horizons and others, and, with that foundation, its exclusionary exploitation of the skill and technology involved to produce additional patents and technology.

77. As Xerox itself stated in 1973, the ability to manufacture and sell its xerographic equipment has at all times been and continues to be attributable to its patents and technical know-how; and that a primary factor to which it owes its present market position is "patents issued by the United States Government."

78. To the limited extent since 1970 that IBM and a few others have attempted entry into the businesses of manufacturing and marketing plain paper office copiers, no one has a product line in any way comparable or competitive to the broad product line Xerox presently possesses and is continuing to expand.



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79. Xerox's unmatched broad product line and its continuing ability and expressions of intent to expand that line, create greater barriers to entry and increased difficulties in competing; and therefore have the effect of maintaining and enlarging Xerox's monopoly and restraining competition with respect to the manufacture and marketing of plain paper office copiers.

80. Since 1961, in accordance with the policy announced by its chief executive officer in that year, Xerox has consistently anticipated and met the increasing demands for plain paper office copiers by substantially increasing its manufacturing, marketing, service and other facilities, and by substantially increasing the number of its personnel engaged in those activities. The extent of that activity was premised on the facts that for the decade until 1970 it was the sole manufacturer of plain paper office copiers and that it remained the sole manufacturer because of its exclusive control of the skill and technology involved.

81. Xerox has always marketed its plain paper office copiers directly to users through its own field sales and service organization.

(a) Between 1961 and 1970 that organization increased from 25 major sales offices to 145 major sales offices in principal cities throughout the United States and Canada, and with resident representation in many additional cities.

(b) Between 1961 and 1970 its field staff increased from approximately 700 to approximately 10,000 salesmen, servicemen and other technical personnel.

(c) Since 1970 the number of Xerox's major sales offices and sales, service and technical personnel has increased even further.

82. As a result of Xerox's acquisition and accumulation of patents and technical know-how in the field of xerography, of its exclusionary exploitation of that skill and technology, and of widespread customer acceptance of its plain paper office copier products, since 1961 Xerox has greatly expanded its product line, its manufacturing, marketing and service facilities and staffs and the volume of its plain paper office copier businesses.

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83. Xerox has thereby become a multi-billion dollar business organization having the advantages of new manufacturing and marketing facilities, of highly developed customer connections, and of skilled and experienced personnel. Those advantages must be faced by any actual or potential competitor, and are themselves great barriers to competition and competitive entry.

84. In Xerox's present hands, those advantages have the unlawful effects of restraining actual and potential competition, and of maintaining and enlarging Xerox's monopolistic position. Whether or not Xerox's acts in expanding its product line, facilities, staffs and business were motivated in whole or in part to satisfy increasing market demands for plain paper office copiers, nevertheless those acts are unlawful because they have produced those monopolistic and anticompetitive effects.

**3. Xerox's Unwillingness Between 1961 and 1970 to Grant Patent Licenses With Respect to Plain Paper Office Copying and Its Threats and Policy of Patent Enforcement.**

85. In 1963 and 1964, SCM requested orally and in writing that Xerox grant patent licenses to SCM relating to the manufacture of plain paper office copiers. Those requests were communicated on SCM's behalf by its Patent Administrator to Xerox's Chairman of the Board, and to the head of Xerox's Patent Department. SCM also requested patent licenses on Xerox's liquid toner patents which Xerox acquired from Horizons.

86. All of SCM's requests were refused.

87. During oral conversations with SCM's Patent Administrator which occurred during the 1962-1964 period (which also related to patent aspects of SCM's manufacture of its first model of a coated paper office copier), the head of Xerox's Patent Department stated that Xerox had adopted a policy against offering any patent licenses with respect to plain paper office copiers which would allow competition with Xerox's plain paper office copier. He also stated that any attempt to design around any Xerox patents should be attempted with the utmost care since some very important patent claims appear "in some

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strange places" among the approximately 250 issued patents which he said Xerox owned at that time.

88. During those same conversations, an assistant to the head of Xerox's Patent Department stated in his superior's presence to SCM's Patent Administrator, that Xerox was unwilling to advise SCM how and why SCM's coated paper office copier violated any of Xerox's patents. He explained that such information might enable SCM to "design around" any patent claims which Xerox might identify as allegedly being infringed.

89. In accordance with its policy as thus described to SCM, in the ten years between 1961 and 1970 Xerox did not license, and was unwilling to consider granting any licenses to any potential plain paper office copier competitor with respect to any of its patents insofar as they related to the manufacture of plain paper office copiers.

90. As more fully alleged in paragraph 141, in 1960 Xerox required and coerced Rank-Xerox and Savin to cancel their agreement under which Rank-Xerox had extended in its territory a patent license to Savin with respect to plain paper office copying.

91. Also, in accordance with its policies to prevent others from obtaining access to patented xerographic technology for plain paper office copying and to obtain for Xerox the use of such technology as may have been patented by others, since 1961 Xerox has entered into or maintained in force various restrictive patent license agreements with many companies under which in all instances the licensees were not extended a license permitting the use of the patents in plain paper office copying.

(a) Under some of those agreements a number of companies, including SCM, were granted the right on a royalty basis to use xerography in the manufacture and marketing of coated paper or coated paper office copiers.

(b) Others of those agreements (with companies including RCA, IBM, GE, Kalle, Azoplate, Keuffel & Esser and Bell & Howell) contained grantback provisions which have given Xerox the unrestricted right to use xerographic

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patents and technical information developed by the licensees involved.

92. By words and deeds, since 1961 Xerox has threatened patent infringement litigation against others who might manufacture a plain paper office copier. The words included those expressed to SCM; and those expressed by Xerox's chief executive officer in 1963 when he stated that, in the light of Xerox's patent position, anyone who desired to seek the path of manufacturing plain paper office copiers had to tread that path with Xerox. Xerox's words that it would vigorously enforce its strong patent position against any potential manufacturer of plain paper office copiers were supported since 1961 by the execution of its policy of "strengthening its patent position" by amassing and securing many hundreds of additional patents, most of which are not used by Xerox in its own copiers but which have the effect of blocking others.

93. Xerox's direct and implied threats of vigorous patent enforcement with respect to plain paper office copiers have had a chilling effect in restraining potential competition. Those threats were not a lawful exercise of patent rights, but an element in Xerox's overall monopolization of the skill and technology of plain paper office copying, and therefore, its monopolization of the manufacture and marketing of plain paper office copiers. Those threats were an additional vehicle by which Xerox perpetuated and enlarged its monopoly, and warned every potential competitor that it would be smothered with litigation if it attempted to develop and market any plain paper office copier.

94. In 1970 when IBM introduced its first plain paper office copier, and in 1972 when Litton introduced its plain paper office copier, Xerox commenced and has since maintained burdensome patent infringement actions against them.

95. On April <sup>24</sup> 1970, IBM announced and introduced its IBM Copier I. That plain paper office copier has a speed of 600 copies per hour and was designed primarily for medium monthly usage and to compete with Xerox's "first generation" copiers.



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96. On the same day, Xerox commenced a federal action against IBM alleging that the IBM Copier I infringed twenty-two of Xerox's United States patents. Shortly thereafter, Xerox amended its complaint to reduce the number of allegedly infringed patents to eleven.

97. The continuing direct importance of the patents acquired under the Battelle agreement fourteen years before, is shown in that action. Seven of the twenty-two, and ~~four~~ <sup>three</sup> of the eleven of those allegedly infringed patents, or the patent applications on which they issued, had been purchased by Xerox from Battelle under the terms of their 1956 agreement.

98. The Xerox-IBM patent litigation continues to be pending and has been broadened by IBM to include an attack by it against the validity and enforceability of the patents involved. The litigation has already involved very substantial efforts by the personnel and attorneys for each of the parties and expense in the millions of dollars. Although the Court in which that litigation is pending has directed completion of pretrial discovery proceedings with the greatest possible expedition, it is likely that final determination of that action after trial and appeal is many years distant.

99. While IBM possesses the resources to contest Xerox in patent litigation of that type over a protracted time and to make the enormous investment and commitment to challenge Xerox in the marketplace during the pendency of that litigation with its attendant risks, few others have been or are able to follow the same course of action.

100. In April, 1972, Xerox commenced a patent infringement action against Litton Industries regarding Litton's plain paper office copier, the Royal Bond Copier. Xerox claimed that Litton infringed three of its patents, two of which were purchased by Xerox from Battelle. Also, two of those three patents are not used by Xerox in any of its plain paper office copiers.

101. Xerox's threats of patent litigation, and its fulfillment of those threats as constituting additional bar-

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riers against competitive entry is also shown (a) by its pending patent litigation against IBM in Canada and by Rank-Xerox's pending patent litigation in the United Kingdom and France against companies in the Gestetner group, all concerning plain paper office copying and all more fully described in paragraphs 139 and 140 below; and (b) Xerox's pending patent litigation against Denison Manufacturing Co., Nashua Corporation and Saxon Business Products and by its previous patent actions in the early sixties against SCM and Addressograph-Multigraph Corp., all concerning coated paper office copying by xerographic means.

102. Since SCM is presently attempting the development and marketing of a plain paper office copier, it can reasonably anticipate that any attempt to manufacture or market such a copier will be met with burdensome and protracted patent litigation with Xerox. Such potential litigation constitutes another barrier against the ability to make and maintain competitive entry against Xerox.

**4. The Illusory Nature of Xerox's Offers in 1970 to Grant Licenses as to Three, and in 1973 as to Four of Its Patents Insofar as They Relate to Plain Paper Office Copying.**

103. In late 1969 the Federal Trade Commission commenced an investigation of Xerox concerning its patent, marketing and other activities relating to plain paper office copying and xerography.

104. In 1970, Xerox announced an offer to grant patent licenses with respect to three of its patents relating to plain paper office copying and xerography.

105. The announcement created only the illusion of Xerox's willingness to permit others to gain access to the skill and technology of plain paper office copying in order to compete. In fact, from a technological, economic and competitive standpoint, the grant of such licenses would not produce that effect.

106. In early 1971, Xerox offered to SCM (and told SCM it was offering to others), a "standard" license agreement with respect to each of three U.S. patents: the

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Walkup '814, issued in 1958 (expiring in 1975) on an application filed in 1948; the Bixby '906, issued in 1961 (expiring in 1978) on an application filed in 1953; and the Middleton-Reynold's '006, issued in 1964 (expiring in 1981) on an application filed in 1952.

107. Those three patents, or the patent applications on which they were issued, were purchased by Xerox from Battelle under the 1956 agreement. They embody old technology, as to which Xerox possessed exclusive control for about twenty years until first offered by it for license in 1970 and 1971.

108. Xerox has not used either the Middleton-Reynolds '006 patent or the Walkup '814 patent in any of its plain paper office copiers. It has used the Bixby '906 as alleged in paragraph 66.

109. The "standard" license agreement tendered by Xerox to SCM in 1971 required a royalty rate of 6% per patent on sales of plain paper office copiers having a copying speed of up to 750 copies per hour (which is slower than the copying speed of Xerox's Models 1000, 2400, 3100, 3600-I, 3600-III, 4000 and 7000) and 12% per patent on sales of office copiers having higher speeds.

110. Apart from the 1973 color copier model 6500, the copying speed of 750 copies per hour is slower than the speed of every one of the six new models introduced and marketed by Xerox since 1967, and which presently are, in the aggregate, its biggest revenue producers.

111. If SCM, or anyone else to whom the licenses were offered, accepted and used one, two or three of the tendered license agreements, it would be required to pay a royalty rate of 6% or 12% or 18% on sales of copiers having a speed of up to 750 copies per hour, and 12% or 24% or 36% on sales of copiers having higher speeds.

112. SCM did not accept, and no one else accepted any of the licenses offered by Xerox.

(a) Acceptance of Xerox's offers would not have allowed the manufacture of plain paper office copiers free

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from the threat of onerous patent litigation based on many other patents in Xerox's patent armory.

(b) Even if the use of the old technology embodied in the three patents for which licenses were offered would permit the manufacture of a plain paper office copier, a licensee would face the probability that such a copier would be competitively obsolete by the time it reached the marketplace in view of the technological lead which Xerox then possessed and was expanding; the improved and advanced models which Xerox is presently marketing; and the new models which Xerox has promised in the near future.

(c) The unreasonably high royalty rates for each of the patents or the patents collectively, and the anti-competitive royalty burden for copiers with a speed in excess of 750 copies, constituted further anticompetitive restraints.

113. While it is essential that Xerox grant licenses (whether royalty-free or on reasonable royalty terms) to SCM and others with respect to its more than 1200 unexpired United States patents and thousands of foreign patents, even more is required to create full and fair competitive conditions in the light of Xerox's existing technological lead (to which its chief executive officer referred in 1971) and the hundreds of millions of dollars which Xerox itself says it is presently spending for research and development relating to xerography. Access by competitors to Xerox's ongoing research and development, and licensing with respect to patents issued on presently pending applications, is also necessary until such time as Xerox's wrongfully acquired technological lead has been eliminated.

114. Even if the licensing of the three patents offered to SCM in 1971 would have permitted the manufacture and marketing of a plain paper office copier, it came at least eight years too late from a competitive or economic standpoint.

115. By reason of the facts and circumstances alleged in this complaint concerning Xerox's exclusionary exploitation of the skill and technology involved in plain paper office copying and its attempts to preserve that position, its of-



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fering in 1971 to SCM and others of patent licenses with respect to three of its relatively soon-to-expire patents was only a gesture creating an illusion of willingness to share its plain paper office copying technology.

116. In December, 1972, the Federal Trade Commission served notice of a proposed complaint against Xerox, and in January, 1973 served such a complaint against Xerox. The Commission charged that Xerox has violated Section 5 of the Federal Trade Commission Act by reason of its patent, marketing and other activities in the field of xerography.

117. In April, 1973, Xerox offered to SCM and others a new license with respect to the Walkup '814, Bixby '906 and Middleton-Reynolds '006 patents (the same patents which were the subject matter of the license offers made in 1971) for use in the manufacture of plain paper office copiers. The terms offered were less onerous than those offered in 1970.

118. Xerox offered to license those patents (for the relatively few years remaining on their unexpired terms) at a royalty rate of 3% per patent on sales of plain paper office copiers and with no limitation or additional royalty rate regarding copying speed. Xerox also offered SCM and others a license with respect to the Mayer '884 patent for use in connection with the manufacture of plain paper office copiers at a royalty rate of 1% on sales. The underlying application was acquired from Horizons. The patent was issued in 1972, on an application filed nineteen years earlier in 1953.

119. In addition, Xerox offered SCM and others the four patents as a single package at an unspecified royalty rate "less than" the cumulative rate of 10%.

120. Xerox's new licensing policy has several of the same infirmities as its previous license offers, including lack of protection against the many other patents in Xerox's armory, and the potential market obsolescence of any use of the offered patents which embody old technology. Although the royalty rate has been reduced (but remains unreasonable and burdensome), and although the double royalty rate with respect to plain paper office cop-

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iers having a speed in excess of 750 copies per hour has been eliminated, the new offer comes with two years added to Xerox's technological lead, and with two years less to run before those patents reach the end of their 17-year terms.

121. In response to Xerox's 1973 written offer to license four patents and its expressed willingness to supply further information concerning the license offer, SCM in April, 1973 wrote to Xerox to obtain further information, including inquiry as to which of its patents Xerox uses in each of its plain paper office copiers. That letter referred to the legend placed by Xerox on its plain paper office copiers. On that legend, Xerox offered, "on request," to supply a list of the patents owned or controlled by Xerox which are used in the copier, as alleged in subparagraph 42(i) above.

122. In response to SCM's letter, Xerox refused to identify any of the patents it claims to use in any of its models, claiming that its alleged policy of supplying such information had been discontinued some time ago.

123. The effect of Xerox's refusal to supply that information is to burden the right of others to determine which aspects of its copiers Xerox claims are not in the public domain and which aspects Xerox itself concedes are in the public domain.

124. Xerox's new licensing policy with respect to the four patents involved is merely a second instance of attempting to create an illusion of willingness to permit others to gain access to its skill and technology.

**5. Xerox's Perpetuation of its World-Wide Control Over the Skill, Technology, Manufacture and Marketing of Plain Paper Office Copiers by Agreements with Third Parties in Unlawful Restraint and Monopolization of American Interstate and Foreign Commerce.**

125. Since 1956, by agreements and in concert and combination with third parties, Xerox has maintained and perpetuated world-wide control over the skill and technology involved in the manufacture of plain paper office copiers.

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The foundation of such world-wide control was the United States and foreign patents and the technical know-how acquired by Xerox from Battelle, Horizons and others. As a result, Xerox, in concert and combination with third parties, has maintained a world-wide monopoly over the manufacture and marketing of plain paper office copiers throughout the world, from which, apart from its domestic profits, it has realized hundreds of millions of dollars of additional profits.

126. Xerox's world-wide monopoly in concert and combination with others over the skill and technology with respect to plain paper office copiers has suppressed and restrained American interstate and foreign trade and commerce. Potential American competitors including SCM (which, in other countries, markets coated paper office copiers manufactured in the United States), have been restrained from manufacturing plain paper office copiers in the United States for export and marketing in foreign countries. Potential American competitors have also been restrained from making investments for the manufacture and marketing of plain paper office copiers in foreign countries.

127. In 1956, Xerox and The Rank Organisation, Limited ("Rank, Ltd."), a United Kingdom corporation, by agreement organized Rank-Xerox, Limited, another United Kingdom corporation. Rank-Xerox was organized initially to develop xerography commercially in all countries of the world except the United States and Canada. Fifty per cent of Rank-Xerox's voting securities were issued to Xerox in return for:

(a) an assignment or exclusive license by Xerox to Rank-Xerox of its xerographic patents and patent applications issued and filed outside of the United States and Canada;

(b) an agreement by Xerox to assign or exclusively license to Rank-Xerox such xerographic patents and patent applications issued or filed outside the United States and Canada as Xerox might subsequently obtain or acquire;

(c) other technical information and know-how contributed by Xerox to Rank-Xerox relating to xerography; and

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(d) cash capital contributions to Rank-Xerox by Xerox.

128. The other 50% of Rank-Xerox's voting securities were issued to Rank, Ltd., and its affiliates, in return for cash capital contributions by them.

129. Xerox and Rank, Ltd. each owned 50% of the voting securities of Rank-Xerox from 1956 until December 1969. At that latter time, Xerox and Rank, Ltd. entered into an agreement under which Xerox acquired from Rank an additional 1% of Rank-Xerox's voting securities. Xerox thereby acquired voting control of Rank-Xerox.

130. Fuji-Xerox, Ltd. is a Japanese corporation and was organized in 1960 by Rank-Xerox and Fuji Photo Film Co., Ltd. of Japan. Since 1960, Fuji-Xerox has developed xerographic United States and foreign patents and other technical information which it has licensed to Xerox and Rank-Xerox under agreements with them, and as more fully alleged below, in accordance with their world-wide division of territories.

131. Pursuant to the agreements made in 1956 and since that time among Xerox, Rank, Ltd., Rank-Xerox, Fuji Photo and Fuji-Xerox, those five separate corporate entities have by concert and agreement, maintained and perpetuated exclusive control over the skill and technology of plain paper office copiers throughout the world through their ownership and control of patent rights, and the assignment of those rights among themselves.

132. Between 1956 and 1965, most of the foreign patents involved, or the applications on which patents subsequently issued, were acquired by Xerox from Battelle, Horizons and others, and in turn assigned or licensed by Xerox to Rank-Xerox and ultimately to Fuji-Xerox.

133. Pursuant to the various agreements among the parties concerned, since 1960 Rank-Xerox, and since 1962 Fuji-Xerox have manufactured and marketed plain paper office copiers in various countries of the world as allocated to them under patent rights in those countries.



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134. In 1972, Rank-Xerox had revenues from its xerographic business activities totalling about 268 million pounds (\$700 million), on which it had pre-tax profits of about 106 million pounds (\$275 million). Fuji-Xerox's revenues and profits from its xerographic business activities are not presently known to SCM.

135. Since 1956, the world has been divided among Xerox, Rank-Xerox and Fuji-Xerox with respect to patented and unpatented skill and technology of plain paper office copiers owned or controlled by them and thereby the manufacture and marketing of such copiers.

(a) Since 1956, at the time of its agreement with Battelle, Xerox has retained exclusive ownership of all its United States and Canadian patents and patent applications.

(b) Since 1956, by assignment or exclusive license from Xerox, Rank-Xerox has possessed the sole and exclusive rights to Xerox's patents and patent applications issued and filed in the various countries in Europe and Africa; from 1956 to 1964 it possessed such rights in Central America and South America; and from 1956 to 1960 it possessed such rights in Asia and the Western Pacific.

(c) In 1964, Xerox reacquired from Rank-Xerox the sole and exclusive rights to Xerox's patents and patent applications issued and filed in Central America and South America by trading those rights for monetary and other consideration conveyed to Rank-Xerox.

(d) Since 1960, by assignment or exclusive license from Xerox to Rank-Xerox and in turn by assignment or exclusive license from Rank-Xerox to it, and by ownership of its own patents, Fuji-Xerox has possessed the sole and exclusive rights to Xerox's and its own patents and patent applications issued and filed in various countries throughout Asia and the Western Pacific.

136. The result of the territorial division of the world with respect to the use of patents and patent applications has been to create and perpetuate for each of the companies involved a monopoly over the manufacture and marketing of plain paper office copiers with respect to each of the countries in which it has owned or controlled

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the patents and patent applications issued and filed in that country. Xerox, Rank-Xerox and Fuji-Xerox have each restricted its marketing of plain paper office copiers to its assigned territories.

137. Rank-Xerox's ability to manufacture and sell xerographic equipment, as Xerox asserted in 1973, "has at all times been and continues to be attributable to the patents and technological know-how contributed by Xerox."

138. Xerox's contribution of patents and technical know-how to Rank-Xerox and to Fuji-Xerox constituted American foreign commerce. That contribution has constituted the export by an American corporation of American-owned technological assets to foreign corporations under various agreements entered into since 1956.

139. As part of Xerox's monopolization of the skill and technology of plain paper office copying throughout the world, and as part of its program of threatening and maintaining patent litigation more fully alleged in paragraphs 92-100 above, Xerox has instituted, and there is pending, patent infringement litigation against IBM in Canada with respect to IBM's plain paper copiers.

140. As part of that world-wide monopolization of the skill and technology of plain paper office copying, and as part of that program concerning patent litigation, in concert and combination with Xerox, Rank-Xerox in 1973 instituted patent infringement proceedings in the United Kingdom and in France against companies in the Gestetner group concerning the Gestetner FB 12 plain paper office copier.

141. As part of that world-wide monopolization of the skill and technology of plain paper office copying, as a condition for granting Savin Business Machines Corp. a United States patent license with respect to coated paper office copying by xerographic means, Xerox required Savin and Rank-Xerox to cancel a patent license which Rank-Xerox had previously granted in its territory to Savin with respect to plain paper office copying.

142. Xerox has created and is maintaining by agreement and in combination and concert with others a world-wide

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cartelization of the skill and technology involved in plain paper office copying, and thereby a world-wide cartelization of the manufacture and marketing of plain paper office copiers. Such world-wide cartelization has been and is being nurtured by Xerox as a deliberate policy, for its own profit, to exclude and having the effect of excluding competition with respect to plain paper office copiers throughout the world in restraint of American interstate and foreign commerce.

**Relief and Proceedings With Respect to SCM's First Claim.**

143. To the extent appropriate under FRCP Rule 56, or after trial, the Court should declare that Xerox's acts and practices alleged in this First Claim are illegal and against public policy and that

(a) they violate Section 2 of the Sherman Act independently of any other violation of law;

(b) to the extent they involve any contracts, agreements, combinations or concerted action with any third parties, or any effects thereof, they violate Section 1 of the Sherman Act independently of any other violation of law; and

(c) to the extent they involve any agreements relating to acquisitions of patents, patent applications, technical information, other assets, or stock, or any effects thereof, they constitute a violation of Section 7 of the Clayton Act independently of any other violation of law.

144. After adjudication of Xerox's violations of law, and after consideration of the present and prospective effects of such violations, the Court should fashion and grant the necessary and appropriate remedial injunctive relief so that:

(a) competition with respect to the skill, technology, manufacture and marketing of plain paper office copiers in American interstate and foreign commerce will be pried open and established;

(b) SCM and others will be afforded a full and fair opportunity to compete at the research, manufacturing and marketing levels;

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(c) users of plain paper office copiers and the public will have the benefits of full and fair competition at each of those levels; and

(d) the present and prospective effects of Xerox's monopolistic position and anticompetitive acts and practices will be effectively and permanently eliminated.

145. The remedial injunctive relief required to achieve those objectives must necessarily be fashioned and granted in light of the facts as they exist after the adjudication of Xerox's violations of law. Because of the continuing and prospective irreparable injury to SCM, other potential and actual competitors, users, and the public and because of the enormous potential growth in demand which lies ahead for plain paper office copying (which Xerox itself has forecast), pretrial proceedings; summary or trial adjudication of Xerox's violations of law and SCM's prayer for preliminary injunctive relief; and then trial adjudication of the permanent relief to be granted with respect to this First Claim, should be expedited to the maximum extent possible.

**A. Permanent Relief**

146. At the time of the adjudication of relief in this action, assuming the present and prospective effects alleged in this complaint continue to exist, permanent injunctive relief should be granted along the lines set forth in paragraphs 147 to 157, 159 and the second sentence of paragraph 160.

147. First, Xerox should be required to divest itself of all of its research, patents, technical and manufacturing facilities and assets in the field of xerography. It should be required to create two or more wholly separate and independent companies, properly staffed and financed, to own and operate those facilities and assets as they may be appropriately divided. Thereafter, such new research and manufacturing companies (collectively referred to as the "New Manufacturing Companies") would carry on those activities in the field of xerography.

148. The creation of two or more such new manufacturing companies is necessary since the monolithic and monopolistic character at the research and manufacturing



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levels, and the effects of Xerox's anti-competitive acts and practices at those levels, will remain, or tend to remain for a much longer period if only a single new manufacturing company were created.

149. The creation of the New Manufacturing Companies will produce competition between or among them at the research and manufacturing levels and more speedily negate the effects of Xerox's present position and acts at those levels.

150. For the same reasons at the marketing and service levels, Xerox's present marketing and service facilities, assets and marketing and service personnel in the field of xerography should serve as the foundation for two or more wholly independent marketing and service companies (collectively referred to as the "New Marketing Companies"), which Xerox should be required to create. They should be properly staffed and financed, to own and operate those facilities and assets as may be most appropriately divided. The New Marketing Companies should be enjoined, as may be appropriate, from engaging in any anticompetitive marketing practices.

151. Second, the New Manufacturing Companies should be required for a period of ten years:

(a) on a royalty-free basis (or on a non-discriminatory reasonable royalty basis if the Court so determines), to grant to SCM and other potential and actual competitors and among themselves, non-exclusive licenses to practice for the life of each patent, all of the claims contained in the United States and foreign patents and patent applications owned or controlled by them during that period;

(b) on a reasonable basis to furnish SCM and other potential and actual competitors with other technical information and assistance with respect to the manufacture of plain paper office copiers as may be necessary and reasonably requested;

(c) on a reasonable method of allocation as determined by the Court, to make available for sale to qualified marketers, as the Court determines, the various models of plain paper office copiers, and replacement parts, which they manufacture; and

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(d) to make those sales at reasonable prices based on a formula as determined by the Court which provides the New Manufacturing Companies with a reasonable profit in relation to cost.

152. Third, the New Manufacturing Companies should be enjoined for a period of ten years from engaging in any marketing activities with respect to plain paper office copiers other than those described in subparagraphs 151(c) and (d).

153. Fourth, the New Marketing Companies should be enjoined for a period of ten years with respect to plain paper office copiers from engaging in any research or manufacturing; and for a period of at least five years from expanding any of Xerox's present marketing and service facilities and the present number of its personnel engaged in those activities.

154. Fifth, all agreements by Xerox with any third parties which are presently in effect, under which Xerox obtains or possesses the right to obtain patents, patent applications or technical information in the field of xerography, should be declared illegal and of no further force and effect. The New Manufacturing Companies should be enjoined for a period of ten years from entering into any exclusive agreement with any third party, under which such new companies would obtain exclusive ownership or control over any such assets or rights.

155. Sixth, all agreements by Xerox with Rank-Xerox, Fuji-Xerox and any of their subsidiaries or affiliates, under which the rights to foreign patents and patent applications have been or will be licensed or assigned, should be declared illegal and of no further force and effect. The New Manufacturing Companies should be enjoined for a period of ten years from entering into any agreement with those companies under which they obtain any exclusive rights with respect to any foreign patents or patent applications, or any technical information or assistance.

156. Seventh, Xerox should be required to divest itself of any stock ownership or interest in Rank-Xerox, Fuji-Xerox and any of their subsidiaries and affiliates. The New

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Manufacturing Companies and the New Marketing Companies should each be enjoined for a period of ten years from acquiring in whole or in part the stock of any other company engaged in activities involving the skill, technology, manufacture or marketing of plain paper office copiers, or from acquiring any other company's assets which are involved in, or related to, those activities. The sale of any of their assets or stock to any other company so engaged should likewise be enjoined for that period.

157. Eighth, the agreements described in paragraphs 42(c), 53 and 54 concerning post-employment restrictions against engaging in the field of xerography, should be declared unlawful, of no further force and effect and permanently enjoined.

158. The effects of such remedial relief will be:

(a) to enable the New Manufacturing Companies to continue Xerox's research and manufacturing at present levels and to permit the expansion of its activities and facilities in a competitive atmosphere so that continuing and increasing demands for existing and new improved office copiers can be competitively satisfied during the time needed for SCM and others to develop competitive research and manufacturing facilities;

(b) initially to create competition in the marketing of plain paper office copiers, bringing the benefits of price competition and other forms of marketing competition to users and the public;

(c) to afford SCM and others a fair opportunity to develop sufficient market shares which will stimulate competition and justify substantial investment by SCM and others in research and manufacturing facilities and activities;

(d) ultimately and permanently to eliminate the technological lead with respect to plain paper office copiers and xerography which Xerox possesses;

(e) ultimately and permanently to eliminate the effects of Xerox's monopolistic position and its anticompetitive acts and practices with respect to plain paper office copiers; and

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(f) ultimately and permanently to produce full and fair competition in American interstate and foreign commerce with respect to:

(i) the skill, technology and manufacturing of plain paper office copiers; and

(ii) the marketing and service of such copiers.

159. The Court should retain continuing jurisdiction after entry of judgment. It can then make such other and appropriate modifications or amendments to its judgment as may be required or are appropriate based on post-judgment facts, to achieve those objectives and to create full and effective competition in the manufacture, marketing and service of plain paper office copiers in American interstate and foreign commerce.

**B. Preliminary Relief During the Pendency of This Action.**

160. During the pendency of this action, Xerox should be enjoined from threatening, instituting or maintaining any patent infringement action or claim against SCM with respect to SCM's present and future efforts to develop and market plain paper office copiers. The New Manufacturing Companies should be similarly enjoined permanently, except to the extent that SCM does not accept any patent licenses offered by such new companies on terms and conditions decreed by this Court.

161. During the pendency of this action Xerox should be enjoined or stayed from threatening, instituting or maintaining any other action or claim which might impede SCM's present and future efforts with respect to plain paper office copiers, or which might delay the final adjudication of this First Claim.

162. During the pendency of this action Xerox should be mandatorily enjoined to grant SCM a license with respect to all the United States patents and patent applications it owns or controls. Upon adjudication of this First Claim, it should be determined (in accordance with subparagraph 151(a) above) whether such license should be royalty-free or whether it should bear a reasonable royalty rate; and whether and to what extent any royalty rate decreed by the Court should be applied retroactively.



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163. During the pendency of this action, Xerox should be enjoined against enforcing or attempting to enforce the agreements described in paragraphs 42(c), 53 and 54 concerning post-employment restrictions against engaging in the field of xerography.

164. The injunctive relief during the pendency of this action described in paragraphs 160 to 163 above should be granted because of the continuing irreparable injury inflicted by Xerox's acts and practices on SCM, other potential competitors of Xerox, users of plain paper office copiers and the public generally; and the likelihood that SCM will ultimately establish the violations of law and their effects as alleged in this First Claim.

165. Such injunctive relief during the pendency of this action should be granted so that effective first steps can be taken promptly to pry open and to begin to establish full and fair competition in the skill, technology, manufacture and marketing of plain paper office copiers.

SCM'S SECOND CLAIM: FOR TREBLE DAMAGES

**SCM's Damages by Reason of Xerox's Unlawful Monopolization and Acts and Practices in Restraint of Competition with Respect to the Skill and Technology, and Therefore the Manufacture and Marketing, of Plain Paper Office Copiers.**

166. The allegations contained in paragraphs 9 to 142 of the First Claim are repeated and re-alleged.

167. Xerox's continuing monopolization, exclusive control and acts and practices in restraint of competition with respect to the skill and technology of plain paper office copying in violation of the antitrust laws, caused damage to SCM because they effected high barriers against entry and restrained SCM in American interstate and foreign commerce:

(a) from manufacturing and marketing plain paper office copiers;

(b) from engaging in related business activities such as the rendering of service and the sale of supplies for plain paper office copiers; and

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(c) from earning profits from the conduct of such business activities.

168. By reason thereof, as presently estimated by it, SCM has been damaged, in the amount of at least \$145 million; and SCM shall continue to be damaged in an amount not presently known until such time as the effects of Xerox's unlawful acts and practices involved have been nullified.

169. Under 15 U.S.C. § 15, SCM is entitled to threefold the amount of at least \$145 million; together with threefold the damages suffered by it (in an amount not presently known) from this time until the nullification of the effects of Xerox's unlawful acts and practices; and together with the costs of recovering all of such damages in this action, including reasonable attorneys' fees.

**Proceedings with respect to SCM's Second Claim**

170. Pretrial and trial proceedings with respect to this Second Claim, and with respect to any counterclaims which may be advanced by Xerox as a litigation response to SCM's institution of this action, should be held in abeyance or stayed until adjudication of the First Claim, for the reasons set forth in paragraph 145 and for the following reasons:

(a) The questions raised by the First Claim, which is solely for injunctive relief, are of even greater moment and urgency to SCM and the public than the nonetheless serious question of the amount of substantial damages heretofore suffered by SCM. The adjudication of the First Claim will determine to what extent, and the manner in which, SCM and others will be able to engage in plain paper office copying during the next decade and thereafter; and whether, and to what extent, users of office copiers and the public generally may secure the benefits of competition in connection with plain paper office copying.

(b) It is reasonable to anticipate that if the Federal Trade Commission in its pending action against Xerox is ultimately successful in securing injunctive relief

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against the acts and practices of Xerox, the enforcement of such relief, after Xerox has exhausted all of its rights of appeal, is many years distant, even if those proceedings are expeditiously pursued.

(c) Xerox's chief executive officer has characterized those Commission proceedings as a "nuisance." He has promised that Xerox "will fight every aspect" of the case and that it is determined in the Commission proceedings to prove the lawfulness of all of its acts and practices, not only in defense of itself but in defense of the American patent system. He said that Xerox is not "changing anything" about the way it does business because of the Commission's allegations. Moreover, Xerox contends in its Answer that the Commission's claims of monopolization are not cognizable under Section 5(a) of the Federal Trade Commission Act, the provision of law which the Commission alleges Xerox has violated. Another Xerox official has stated that "We do not believe the Federal Trade Commission is the appropriate forum for the resolution of the problems of multi-national corporations."

(d) Prior adjudication of the illegality or legality of Xerox's acts and practices alleged in the First Claim, will simplify and reduce the scope and extent of pretrial and trial proceedings with respect to SCM's Second Claim for damages, because of the adjudication of the scope and extent of the illegality of Xerox's acts and practices and the possible elimination of some issues.

(e) The scope and extent of pretrial discovery proceedings carried on by the parties with respect to SCM's First Claim will be substantially less than those with respect to SCM's Second Claim. SCM's Second Claim covers, in addition to all matters covered by its First Claim, the consequent monetary effects on SCM's business over a long period of time. Contemporaneous and other proceedings with respect to SCM's Second Claim would inevitably produce protracted delay in the adjudication of SCM's First Claim, and impose a substantial additional litigation burden on the parties.

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SCM'S THIRD CLAIM: FOR DECLARATORY, IN-  
JUNCTIVE AND DAMAGE RELIEF WITH RESPECT  
TO THE MIDDLETON-REYNOLDS '006 PATENT

171. On February 11, 1964, United States Patent No. 3,121,006, entitled "Photo-Active Member for Xerography" (the Middleton-Reynolds '006 patent), was issued. Xerox acquired ownership of that patent under its 1956 agreement with Battelle.

**The 1968 and 1964 License Agreements Between Xerox and SCM as to Coated Paper and Coated Paper Office Copiers.**

172. On June 3, 1968 SCM and Xerox entered into a patent license agreement in which, for specified royalties, and subject to a field-of-use restriction limiting the license to coated paper for use in coated paper office copiers, Xerox granted an express license to SCM with respect to the Middleton-Reynolds '006 patent and an implied license as to other Xerox patents necessary to SCM's restricted use of the '006 license rights.

173. Simultaneously with the execution of the June 3, 1968 agreement, a prior patent license agreement of April 6, 1964 between SCM and Xerox was terminated. Under that April 6, 1964 agreement, for specified royalties and subject to a field-of-use restriction limiting the license to coated paper and coated paper office copiers, Xerox granted a license to SCM with respect to all of its Western Hemisphere patents, one of which was the Middleton-Reynolds '006 patent.

174. On or about May 26, 1971, SCM gave notice in writing of its cancellation of the June 3, 1968 agreement. Until that time, SCM had paid royalties to Xerox under the April 6, 1964 and June 3, 1968 agreements in the total amount of \$639,192.62.

175. It is Xerox's claim that the direct electrostatic method employing zinc oxide as a photoconductor, used since 1962 in the manufacture of coated paper office copiers and coated paper marketed by SCM, infringed the Middle-



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ton-Reynolds '006 patent; and that absent a license from Xerox, such infringement violates Xerox's patent rights entitling it to injunctive and damage relief. Although Xerox claims that the agreement of June 3, 1968 remains in effect, it has not, as of this date, commenced any action against SCM for royalties since October 1, 1970 based upon any claim of breach of contract; nor has it commenced any action against SCM as of this time for any alleged infringement.

**The Invalidity, Unenforceability and Fraudulent Procurement of the Middleton-Reynolds '006 Patent**

176. The Middleton-Reynolds '006 patent is invalid and unenforceable, and was procured by fraud and has been enforced in violation of the patent and antitrust laws:

(a) for each of the reasons alleged by Dennison Manufacturing Co., Nashua Corporation, Saxon Business Products, Inc., Litton Industries, Inc., Litton Business Systems, Inc. and Litton Systems, Inc. in their various presently pending litigations with Xerox (*Xerox Corp. v. Dennison Manufacturing Co.*, 67 Civ. 3302 in the Southern District of New York; *Xerox Corp. v. Nashua Corp.*, 69 Civ. 546 in the same court; *Xerox Corp. v. Saxon Business Products, Inc.*, 71 Civ. 2630 in the same court; and *Xerox Corp. v. Litton Industries, Inc., Litton Systems, Inc. v. Xerox Corp. and Litton Business Systems, Inc. v. Xerox Corp.*, all commenced in 1972, Civil Nos. 15,705, 15,136 and 15,137 in the District of Connecticut);

(b) by reason of Xerox's acquisition and unlawful attempted enforcement of the Middleton-Reynolds '006 patent and other patents purchased by Xerox under the 1956 Battelle agreement, as alleged in the First Claim; and

(c) by reason of Xerox's imposition of field-of-use restrictions in its licenses with SCM and others of the Middleton-Reynolds '006 patent and other xerographic patents which, alone or together with Xerox's other acts and practices as alleged in the First Claim, had the effect of restraining and excluding SCM and others from competing with Xerox in the manufacture and marketing of plain paper office copiers.

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**Relief and Proceedings With Respect to SCM's Third Claim**

177. Under 28 U.S.C. § 2201 and the patent laws of the United States, and by reason of the existence of a case of actual controversy between the parties with respect to the matters involved, this Court should enter final judgment declaring that:

(a) the Middleton-Reynolds '006 patent is invalid and unenforceable and was procured by fraud; and

(b) under the June 3, 1968 agreement or otherwise, SCM is not obligated to pay and Xerox is not entitled to recover any further royalties or other relief with respect to any claimed breach of that agreement or any claimed infringement of the Middleton-Reynolds '006 patent.

178. SCM is entitled under 15 U.S.C. § 15 to threefold the damages suffered by it by reason of Xerox's fraudulent procurement of the Middleton-Reynolds '006 patent, and its enforcement of that fraudulently procured patent against SCM by the extraction of royalty payments in violation of Sections 1 and 2 of the Sherman Act, because such enforcement has had the effect of unreasonably restraining or of monopolizing or attempting to monopolize the manufacture and marketing of coated paper office copiers and coated paper. SCM should recover from Xerox threefold the amount of at least \$612,116.97 of the royalties paid by SCM to Xerox, together with the costs of obtaining such judgment, including reasonable attorneys' fees.

179. Xerox should be permanently enjoined from enforcing the Middleton-Reynolds '006 patent.

180. Pretrial and trial proceedings with respect to this Third Claim should be held in abeyance or stayed until final adjudication of the previously commenced and presently pending litigations between Xerox and Dennison Manufacturing Co., Nashua Corp., Saxon Business Products, Inc., Litton Industries, Inc., Litton Business Systems, Inc. and Litton Systems, Inc.:

(a) because of the collateral estoppel effect in this action of any judgment adverse to Xerox with respect to the invalidity, unenforceability or fraudulent procurement of the Middleton-Reynolds '006 patent in any one or more of those litigations; and

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(b) in the interests of the orderly administration of justice and the avoidance of potential unnecessary and burdensome litigation with respect to many of the issues raised by this Third Claim.

181. Pretrial and trial proceedings with respect to this Third Claim should be held in abeyance or stayed until adjudication of the First Claim for reasons similar to those alleged in paragraph 170 with respect to the Second Claim.

WHEREFORE, this Court should grant the interlocutory and permanent relief requested with respect to each of the claims in this complaint; the damages sought with respect to the Second and Third Claims; the disbursements, attorneys' fees and other costs as are allowable in law and in equity; and such other and further relief as this Court deems just and proper as to each Claim.

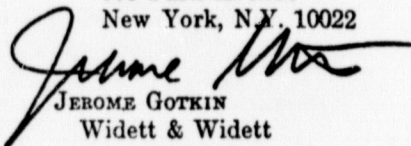
  
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**SCM's Motion for Preliminary Injunction—Filed  
July 31, 1973.**

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

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[S A M E T I T L E]

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MOTION FOR A PRELIMINARY INJUNCTION

Plaintiff hereby moves, pursuant to Rule 65(a) of the Federal Rules of Civil Procedure, based upon the allegations set forth in paragraphs 1 through 142 and paragraphs 164 and 165 of its complaint, and upon the evidence to be adduced at a hearing on this motion, for the preliminary injunctive relief requested in paragraphs 160 through 163 of the First Claim of its complaint, and for such other or further or alternative relief as the Court may deem just and proper.

The Plaintiff  
SCM CORPORATION

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**SCM's Motion for Conference—Filed July 31, 1973.**

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

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[S A M E T I T L E]

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MOTION FOR CONFERENCE

Plaintiff hereby moves, pursuant to Rule 16 of the Federal Rules of Civil Procedure, for the reasons of urgency and importance set forth in the First Claim of its complaint (including paragraphs 7, 8, 145, 164 and 165), paragraph 170 of its Second Claim and paragraphs 180 and 181 of its Third Claim, that the Court direct the attorneys for the parties promptly to appear before it, at a time scheduled by and convenient to the Court, for a conference to consider:

1. Simplifying the issues raised by plaintiff's First Claim and, in that connection, the extent to which factual matters are genuinely undisputed or disputed;
2. Delineating the extent to which the parties are entitled to conduct further discovery with respect to SCM's First Claim and scheduling the expeditious completion of such discovery;
3. Scheduling a date for some time within the next four to six months (with due regard for the convenience of the Court and the legitimate pretrial discovery rights of the parties) for hearing and trial of plaintiff's accompanying motion for a preliminary injunction as to matters raised by its First Claim and the allegations in its First Claim that defendant has violated each of Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act; and

*SCM's Motion for Conference—Filed July 31, 1973.*

4. Such other matters as may aid in the disposition of the action.

The Plaintiff  
SCM CORPORATION

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**Amended Complaint—Filed November 5, 1973.**

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**United States District Court**  
**FOR THE DISTRICT OF CONNECTICUT**

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SCM CORPORATION,	}	Civil No. 15807
<i>against</i>		
XEROX CORPORATION,		
Defendant.		

**AMENDED COMPLAINT**

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*Amended Complaint.*

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**United States District Court**  
**FOR THE DISTRICT OF CONNECTICUT**

<div style="border-top: 1px solid black; border-bottom: 1px solid black; padding: 10px 0"><p style="text-align:center">SCM CORPORATION, <i>against</i> XEROX CORPORATION,</p></div>	}	<p>Plaintiff,  Defendant.</p> <p>Civil No. 15807</p>
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**AMENDED COMPLAINT**

Plaintiff SCM Corporation ("SCM"), by its attorneys, for its amended complaint against Xerox Corporation ("Xerox"), on knowledge as to matters pertaining to itself and on information and belief as to all other matters, alleges:

**Jurisdiction, Venue and the Parties**

1. This action concerns the acts and practices of Xerox and their effects by which, in interstate and American foreign commerce:

(a) Xerox has, in violation of Section 2 of the Sherman Act (15 U.S.C. § 2), monopolized and attempted and conspired to monopolize the skill and technology and manufacture and marketing of plain paper office copiers;

(b) Xerox has, in violation of Section 1 of the Sherman Act (15 U.S.C. § 1), unreasonably restrained trade and commerce in the skill and technology and manufacture and marketing of plain paper office copiers through the means of acquisition agreements, exclusive dealing agreements, cross-licenses, grant-back agreements, joint ventures, restrictive employment agreements, and other contracts, agreements, conspiracies and combinations; and

(c) Xerox has, in violation of Section 7 of the Clayton Act (15 U.S.C. § 18), made acquisitions of patented and unpatented technology, other assets and stock, having the probable effect of substantially lessening competition or tending to create a monopoly in the skill and technology

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and manufacture and marketing of plain paper office copiers.

2. This Court has jurisdiction of this action to adjudicate SCM's claims for injunctive relief and damages under Sections 4 and 16 of the Clayton Act (15 U.S.C. §§ 15 and 26), in that, by reason of Xerox's violations of Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act, SCM has been injured in its business or property and continues to suffer irreparable injury.

3. The acts and practices of Xerox alleged in this complaint have been committed in interstate commerce and in American foreign commerce.

4. Venue is properly in this district under Section 12 of the Clayton Act (15 U.S.C. § 22) because Xerox is found and transacts business and its executive offices are located within this judicial district.

5. Xerox and SCM are corporations organized and existing under the laws of the State of New York. Xerox is engaged in the manufacture and marketing of plain paper office copiers. SCM is engaged in the manufacture and marketing of coated paper office copiers and has attempted and is attempting to develop and market plain paper office copiers.

SCM'S FIRST CLAIM: FOR PROSPECTIVE INJUNCTIVE  
RELIEF AGAINST XEROX'S MONOPOLISTIC AND ANTI-  
COMPETITIVE ACTS AND PRACTICES

**Xerox's Monopoly Position With Respect to the Skill,  
Technology, Manufacture and Marketing of Plain Paper  
Office Copiers.**

6. Plain paper office copiers are office machines which conveniently and cleanly produce copies of documents on plain or bond paper without the use of stencils, spirit or offset masters.

7. Generally, users of office copiers strongly prefer plain paper office copiers to coated paper office copiers (office machines which make copies on specially treated

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and chemically coated paper), because of the better appearance, weight, usability and other features of plain or bond paper copies.

8. The only commercial means ever known to manufacture plain paper office copiers is through the use of xerography. "Xerography" is the name given in 1948 by Battelle Memorial Institute Inc. or Battelle Development Corporation (both collectively referred to as "Battelle") to the copying of documents by electrostatic means, regardless of whether producing copies of documents on plain paper or on specially treated and chemically coated paper or on other materials. It is the name used since 1948 by Xerox (then known as Haloid), and used in this complaint, to refer to such copying by electrostatic means.

9. The skill and technology of plain paper office copying is a specific and identifiable usage of xerography, which can be, and which Xerox has, segregated apart from other usages of xerography. It is an indispensable element in the manufacture of plain paper office copiers; and, without exception, it has been used in the manufacture of all plain paper office copiers ever manufactured by Xerox and anyone else.

10. The skill and technology of plain paper office copying, the manufacture of plain paper office copiers, and the marketing of plain paper office copiers are each a separate "part of trade or commerce" and "line of commerce" under Section 2 of the Sherman Act and Section 7 of the Clayton Act, respectively, and involve a substantial amount of "trade or commerce" under Section 1 of the Sherman Act.

11. From 1960 (when Xerox introduced its first plain paper office copier) until 1970, Xerox was the sole manufacturer and marketer of plain paper office copiers. Since 1970 other companies have marketed plain paper office copiers, but their competitive impact has been and continues to be minimal. Since 1970 Xerox's market share of the businesses of manufacturing and marketing plain paper office copiers has been more than 95%.

12. Xerox's annual revenues from all of its plain paper office copying activities rose from less than \$4 million in



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1960 to more than \$1.9 billion in 1972, and its annual total profits before taxes from those activities rose from less than \$1 million in 1960 to about \$550 million in 1972. Its total profits before taxes from those activities in the period 1960-1972 amounted to more than \$2.7 billion, of which \$1.7 billion was earned in the period 1960-1970, and of which about \$1 billion was earned in the two years of 1971 and 1972.

13. Xerox's monopolistic position and power with respect to the manufacture and marketing of plain paper office copiers and the extraordinary growth in its revenues and profits from those activities, resulted from its monopolization and exclusionary exploitation of the skill and technology of plain paper office copying, including the xerographic patents which it has owned and controlled.

14. Such monopolization was attained by 1961 or no later than 1963 as a direct and intended result of the adoption and implementation by Xerox of its policies of acquiring ownership, control and use of patented and unpatented skill and technology of plain paper office copying developed and owned by others, and by its exclusionary exploitation of such skill and technology, all as more fully alleged in paragraphs 16 to 25.

15. On that foundation of acquired monopoly power, and as the result of the continuing implementation of its policies, since 1961 Xerox's monopolization of the skill and technology and the manufacture and marketing of plain paper office copiers has been maintained and enlarged by: acquisition and aggregation of additional patented and unpatented xerographic technology; anticompetitive acts and practices; and continuing exclusionary exploitation of all of the patented and unpatented skill and technology of plain paper office copying which it had acquired and aggregated; all as more fully alleged in paragraphs 26 and 27.

**Xerox's Unlawful Acquisitions of Patents and Technology from Battelle, Horizons and Others and Its Control by 1961 of the Skill and Technology of Plain Paper Office Copying.**

16. Plain paper office copying, and xerography, owe their origins to four basic patents issued between 1940 and

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1944 to Chester Carlson and which expired between 1957 and 1961.

17. In 1944, Battelle and Carlson entered into an agreement to attempt commercialization of the four basic Carlson patents and to engage in further research and development concerning copying of documents by xerographic means.

18. From 1947 to 1956, Xerox entered into patent license and other agreements with Battelle under which Xerox obtained exclusive worldwide rights with respect to the four basic Carlson patents, all other issued United States and foreign xerographic development and improvement patents owned or controlled by Battelle, and all other xerographic patents thereafter issued to or acquired by Battelle. Also under those agreements, Battelle carried on xerographic research and development activities exclusively for Xerox.

19. In 1956, Xerox and Battelle entered into another agreement under which Xerox purchased and acquired exclusive United States and worldwide ownership and control of all of the patented and unpatented skill and technology in the field of xerography which Battelle had developed by that time, and which it has developed during the 17 years since that time. Under that agreement, Xerox also has the continuing option to acquire exclusive ownership of all patented and unpatented xerographic technology hereafter developed by Battelle.

20. Since 1956 Battelle has engaged and continues to engage in xerographic research and development activities exclusively for Xerox.

21. In 1960, Xerox entered into agreements with Horizons, Inc. under which Xerox purchased a number of xerographic United States and foreign patents and patent applications. Since that time, and also pursuant to those agreements, Horizons has engaged in xerographic research for Xerox's sole and exclusive benefit and use.

22. Prior and subsequent to 1960, Xerox obtained access to and use of other patented and unpatented xerographic

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technology developed and owned by numerous other companies by entering into various acquisition, exclusive, cross-license, grantback and other agreements. Those agreements were made by Xerox pursuant to its policies of excluding others from practicing the skill and technology of plain paper office copying; of allowing and licensing others to use xerographic technology for designated purposes so long as they did not include plain paper office copying; and of further enlarging its own unrestricted rights in and access to patented and unpatented xerographic technology developed by others.

23. As a result of the agreements with Battelle, Horizons and numerous others, by 1961, by which year the last of the four basic Carlson patents had expired, Xerox had acquired and aggregated ownership of about 1,000 United States and foreign xerographic patents and patent applications. Xerox had also assured itself exclusive and other contractual rights to future innovative xerographic development by Battelle, Horizons and others.

24. By 1961 and in any event no later than 1963, Xerox had acquired and aggregated a patent thicket of xerographic patents and patent applications which excluded and prevented SCM and other potential competitors from engaging in the manufacture of plain paper office copiers. By such times, Xerox had:

(a) re-established a patent structure with respect to xerography and plain paper office copying which afforded it protection almost equalling that which it possessed during the period of basic patent coverage;

(b) recreated a powerful patent structure which assured it the right to proceed with its own programs in plain paper office copying without much likelihood of being blocked by others, while giving it the power to exclude and block potential competitors from entry into the businesses of manufacturing and marketing plain paper office copiers; and

(c) ensured that no one else could engage in the manufacture or marketing of plain paper office copiers without patent licensing by Xerox.

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25. By 1961 or no later than 1963, Xerox had acquired and achieved worldwide control and monopoly power over the patented and unpatented skill and technology of plain paper office copying, which it would be in a position to exploit for many years to come, and which gave it the monopolist's powers to:

(a) regiment the entire businesses of manufacturing and marketing plain paper office copiers;

(b) perpetuate its control over those businesses long after the basic patents had expired;

(c) funnel systematically the fruits of invention of an entire technological field of endeavor into its own hands;

(d) exclude competitors and suppress and restrain any potential or actual competition in the manufacture and marketing of plain paper office copiers; and

(e) perfect and enlarge an industrial monopoly with respect to those businesses.

**Since 1961, Xerox Has Unlawfully Exercised, Maintained and Enlarged Its Acquired Monopoly Power and Unlawfully Restrained Competition With Respect to the Skill, Technology, Manufacture and Marketing of Plain Paper Office Copiers.**

26. On the foundation of the monopoly and anti-competitive power it had acquired and achieved with respect to the skill and technology of plain paper office copying as alleged above, Xerox has exercised that power since 1961 (and in some respects prior to that time), by engaging in the acts and practices alleged below in paragraph 27. Those acts and practices have had the actual and probable effects (whether or not intended by Xerox) with respect to the skill, technology, manufacture and marketing of plain paper office copiers, of suppressing, foreclosing and restraining competition by SCM and others; of creating, maintaining and increasing the number, scope and impact of barriers to entry and effective competition; and of maintaining and increasing the size and scope of Xerox's monopoly.



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27. The acts and practices of Xerox since 1961 (and in some respects prior to that time), include, among others:

(a) continuing its exclusionary exploitation of the patented and unpatented skill and technology of plain paper office copying which it had acquired and aggregated, purposefully to exclude and restrain competition while it carried on and enlarged all of its own plain paper office copier activities;

(b) continuing to acquire, under exclusive, restrictive and other agreements, the patented and unpatented xerographic skill and technology developed by Battelle, Horizons and others;

(c) acquiring other companies to obtain their xerographic technology and the services of their scientific or technical personnel;

(d) requiring its research, scientific and technical personnel, and since 1970 its managerial and professional personnel, to execute written restrictive agreements preventing or restraining them from engaging in xerographic activities for any other company following termination of employment with Xerox;

(e) perpetuating its exclusive control over the services of most of the scientific and technical personnel possessing skill or experience in xerography, and building a technical community under its exclusive control which by 1972 included about 95% of the world's personnel proficient in xerography;

(f) enormously expanding its xerographic research and development facilities and activities and the number of professional and skilled employees engaged in those activities;

(g) implementing a policy of concealing unpatented xerographic skill and technology;

(h) implementing a policy of prosecuting many patent applications and obtaining many patents, solely for the purpose of excluding and restraining plain paper office copier competition by, among other things:

(i) re-establishing the patent protection afforded by expiring patents;

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(ii) securing ownership or control of "blocking patents";

(iii) further enlarging the patent thicket of xerographic patents which it possessed by 1961, and which presently consists of more than 1600 unexpired United States patents, more than 200 pending United States patent applications and many thousands of foreign patents and patent applications;

(iv) increasing the difficulty and expense to others in attempting to design around those patents; and

(v) increasing the difficulty and risk to others in attempting to manufacture plain paper office copiers without infringement of those patents;

(i) using only a small fraction of its patented inventions and the inventions covered in its patent applications in the plain paper office copiers it has manufactured and the copiers which it is presently developing, with the balance of the many patented inventions which it has not used having the effect of "blocking patents";

(j) refusing to identify the patented inventions it claims to use in each of its plain paper office copiers despite its undertaking to do so as set forth on legends it has affixed to those copiers ("Manufactured Under One or More U.S. Patents Owned or Controlled by Xerox Corporation—List Supplied on Request"), for the purpose of preventing others from determining which aspects of its plain paper office copiers Xerox claims are not in the public domain and which aspects of such copiers are in the public domain;

(k) entering into and maintaining in force various restrictive patent license agreements whereby Xerox licensees have been permitted to use patented xerographic technology only so long as the technology was not used in connection with the manufacture or marketing of plain paper office copiers;

(l) asserting that its patents gave it exclusive control over the manufacture of plain paper office copiers and that it was thereby impossible for anyone else, absent a

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license from Xerox, to manufacture such copiers without infringing some of those patents;

(m) falsely asserting to SCM and others that it would give serious consideration to their requests for patent licenses with respect to plain paper office copying, when in fact it had no intention of giving any such requests any consideration;

(n) repeatedly refusing to grant the requests by SCM and others for patent licenses with respect to plain paper office copying, and refusing until late 1970 to offer any plain paper office copying patent licenses;

(o) in late 1970, and 1973, making only meaningless and illusory offers to SCM and others of patent licenses at unreasonably high royalty rates with respect to three, and then four of its xerographic patents, all of which had been acquired from Battelle or Horizons and all of which embodied old technology, and in each instance without offering any protection against any infringement action it might bring based on its many other patents;

(p) threatening and maintaining burdensome patent infringement litigation against manufacturers and marketers of coated paper office copying products using xerographic means, and against actual and potential plain paper office copier competitors, including SCM;

(q) developing and manufacturing the models of plain paper office copiers it introduced between 1960 and 1965 by primarily using patented and unpatented technology acquired from Battelle, Horizons and others;

(r) developing and manufacturing the many new and improved models of plain paper office copiers it has introduced since 1965, and developing the new and improved models it presently plans to introduce and manufacture in the future by continuing to use patented and unpatented technology acquired from Battelle, Horizons and others, together with additional technology it has aggregated as the result of its own activities;

(s) greatly expanding its manufacturing and marketing facilities, personnel and capabilities, and greatly expanding its multiple product line during the many years

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it sheltered itself from any plain paper office copier competition and the few recent years when it has faced only minimal competition;

(t) effectuating, maintaining and enlarging since 1956 the worldwide cartelization and control over the skill and technology of plain paper office copying and the manufacture and marketing of plain paper office copiers, by agreements and a continuing combination and conspiracy with the Rank Organisation, Ltd., Rank-Xerox, Ltd., Fuji Photo Film Co., Ltd. of Japan and Fuji-Xerox, Ltd., pursuant to which, among other things:

(i) a worldwide division of exclusive territories was effectuated among Xerox, Rank-Xerox and Fuji-Xerox, excluding and restraining potential American competitors such as SCM from attempting to manufacture and market plain paper office copiers throughout the world;

(ii) Xerox contributed to Rank-Xerox and Fuji-Xerox the patents and technical know-how which has enabled them to manufacture and sell plain paper office copiers, a contribution which constituted the export in American foreign commerce of American-owned technological assets;

(iii) Xerox and Rank-Xerox obtained access to and use of xerographic technology developed by Fuji-Xerox;

(iv) Xerox acquired control of Rank-Xerox;

(v) Xerox caused Rank-Xerox to cancel, and Savin Business Machines Corp. to surrender, the patent license which Rank-Xerox had previously granted Savin with respect to plain paper office copying as a condition to the granting by Xerox to Savin of a United States patent license for coated paper office copying by xerographic means;

(vi) Xerox restrained Rank-Xerox from granting plain paper office copying patent licenses to others in Rank-Xerox's territories;

(vii) Xerox and Rank-Xerox threatened and maintained burdensome patent infringement litigation with respect to the manufacture of plain paper office copiers by others in foreign countries; and



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(viii) Xerox realized hundreds of millions of dollars of profits.

**The Unlawful Effects of Xerox's Acts and Practices and Violations of Law.**

28. The unlawful monopolistic and anticompetitive effects of Xerox's acts and practices as alleged in this complaint have been and are, among other things, that:

(a) Xerox acquired, and thereafter exercised, monopolistic and anticompetitive power with respect to the skill and technology and the manufacture and marketing of plain paper office copiers;

(b) Xerox excluded and restrained potential competitors including SCM from engaging in the manufacture and marketing of plain paper office copiers;

(c) Xerox faced no plain paper office copier competition from 1960 to 1970 and it has faced only minimal plain paper office copier competition since 1970;

(d) Xerox has exercised its ability to determine and control the pace and direction of scientific inquiry and endeavor in xerography and the skill and technology of plain paper office copying, in large part free from the influence of the competitive efforts of others;

(e) research and development by others with respect to the skill and technology and the manufacture of plain paper office copying has been restrained;

(f) Xerox has excluded, restrained and hampered potential and actual competitors from seeking to compete for and to obtain the benefits of the services of most of the world's personnel who have technical competence and experience in xerography;

(g) Xerox has preserved and enlarged its technological lead, its development, engineering and manufacturing lead, its marketing lead, and its monopolistic, manufacturing and marketing power with respect to plain paper office copiers;

(h) potential and actual plain paper office copier competitors face the risk of early obsolescence of their copiers;

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(i) Xerox has assured itself of the patronage for many years to come of most users of plain paper office copiers;

(j) Xerox has secured the many advantages of a multi-billion dollar business organization having new and extensive research, manufacturing and marketing facilities; widespread customer acceptance of its plain paper office copier products; highly developed customer connections; large numbers of skilled and experienced personnel; and great research, manufacturing and marketing power; and such advantages are great barriers to competition and competitive entry; and

(k) Xerox has excluded and restrained American foreign commerce with respect to the skill and technology and manufacture and marketing of plain paper office copiers; and has excluded and restrained the export of American-manufactured plain paper office copiers by others to foreign countries throughout the world.

29. Even if all the patents acquired and aggregated by Xerox were validly issued, Xerox's acts and practices and their effects as alleged in this complaint:

(a) violate Section 2 of the Sherman Act, since by reason of those acts and practices, Xerox has monopolized and attempted and conspired to monopolize interstate and American foreign commerce in the skill and technology and the manufacture and marketing of plain paper office copiers;

(b) violate Section 1 of the Sherman Act to the extent that such acts and practices have involved agreements, contracts, conspiracies or combinations, which have unreasonably restrained trade or commerce by excluding and restraining competitors and potential competitors in interstate and American foreign commerce from gaining access to and use of the skill and technology of plain paper office copying and by excluding and restraining competition with respect to the manufacture and marketing of plain paper office copiers; and

(c) violate Section 7 of the Clayton Act to the extent such acts and practices have involved the acquisition

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or purchase of patented and unpatented technology, other assets and stock, since their probable effects have been substantially to lessen competition or tend to create a monopoly in interstate and American foreign commerce with respect to the skill and technology and the manufacture and marketing of plain paper office copiers.

30. Unless Xerox's acts and practices as alleged in this complaint are declared to be against public policy and illegal, and unless they are enjoined and far-reaching remedial injunctive relief is granted, so that the effects of such policies and acts and practices are dissipated and nullified during the pendency of this action and permanently:

(a) SCM and other potential and actual plain paper office copier competitors will continue to be irreparably injured;

(b) the hundreds of thousands of users of plain paper office copiers (including state and federal governmental agencies, business and professional organizations, and educational and charitable institutions), and the public, will be deprived of the benefits of competition and will continue to bear the burden of Xerox's anticompetitive and monopolistic acts and practices;

(c) plain paper office copier competition will continue to be restrained and the establishment of full and fair competition will be prevented.

**Relief With Respect to SCM's First Claim.**

*A. Permanent Relief*

31. The Court should declare that Xerox's acts and practices alleged in this First Claim are illegal and against public policy and that as alleged in paragraph 29, they violate Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act.

32. After adjudication of Xerox's violations of law, and after consideration of the present and prospective effects of such violations, the Court should fashion and

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grant the necessary and appropriate remedial injunctive relief so that:

(a) full and fair competition with respect to the skill, technology, manufacture and marketing of plain paper office copiers in American interstate and foreign commerce will be established;

(b) SCM and others will be afforded a full and fair opportunity to compete at the research, manufacturing and marketing levels;

(c) users of plain paper office copiers and the public will have the benefits of full and fair competition at each of those levels; and

(d) the present and prospective effects of Xerox's monopolistic position and anticompetitive acts and practices will be effectively and permanently eliminated.

33. The remedial injunctive relief required to achieve those objectives must necessarily be fashioned and granted in light of the facts as they exist after the adjudication of Xerox's violations of law. Because of the continuing and prospective irreparable injury to SCM, other potential and actual competitors, users, and the public, the summary or trial adjudication of Xerox's violations of law and SCM's prayer for preliminary injunctive relief, and the trial adjudication of the permanent relief to be granted with respect to this First Claim, should be expedited to the maximum extent possible.

34. Permanent injunctive remedial relief in this action should be granted along the lines set forth in paragraphs 35 to 46, 48 and the second sentence of paragraph 49.

35. *First*, Xerox should be required to divest itself of all of its research, patents, technical and manufacturing facilities and assets in the field of xerography. It should be required to create two or more wholly separate and independent companies, properly staffed and financed, to own and operate those facilities and assets as they may be appropriately divided. Thereafter, such new research and manufacturing companies (collectively referred to as the "New Manufacturing Companies") would carry on those activities in the field of xerography.



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36. The creation of two or more such new manufacturing companies is necessary since the monolithic and monopolistic character at the research and manufacturing levels, and the effects of Xerox's anti-competitive acts and practices at those levels, will remain for a much longer period if only a single new manufacturing company were created.

37. The creation of the New Manufacturing Companies will produce competition among them at the research and manufacturing levels and more speedily negate the effects of Xerox's present position and acts at those levels.

38. For the same reasons at the marketing and service levels, Xerox's present marketing and service facilities, assets and marketing and service personnel in the field of xerography should serve as the foundation for two or more wholly independent marketing and service companies (collectively referred to as the "New Marketing Companies"), which Xerox should be required to create. They should be properly staffed and financed, to own and operate those facilities and assets as may most appropriately be divided. The New Marketing Companies should be enjoined, as may be appropriate, from engaging in any anticompetitive marketing practices.

39. *Second*, the New Manufacturing Companies should be required for a period of ten years:

(a) on a royalty-free basis (or on a non-discriminatory reasonable royalty basis if the Court so determines), to grant to SCM and other potential and actual competitors and among themselves, non-exclusive licenses to practice for the life of each patent, all of the claims contained in the United States and foreign patents and patent applications owned or controlled by them during that period;

(b) on a reasonable basis to furnish SCM and other potential and actual competitors with other technical information and assistance with respect to the manufacture of plain paper office copiers as may be necessary and reasonably requested;

(c) on a reasonable method of allocation as determined by the Court, to make available for sale to qualified marketers, as the Court determines, the various models of

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plain paper office copiers, and replacement parts, which they manufacture; and

(d) to make those sales at reasonable prices based on a formula as determined by the Court which provides the New Manufacturing Companies with a reasonable profit in relation to cost.

40. *Third*, the New Manufacturing Companies should be enjoined for a period of ten years from engaging in any marketing activities with respect to plain paper office copiers other than those described in subparagraphs 39(c) and (d).

41. *Fourth*, the New Marketing Companies should be enjoined for a period of ten years with respect to plain paper office copying from engaging in any research or manufacturing; and for a period of at least five years from expanding any of Xerox's present marketing and service facilities and the present number of its personnel engaged in those activities.

42. *Fifth*, Xerox should be required to disclose to SCM and other potential and actual competitors its confidentially-maintained unpatented technology relating to plain paper office copying and its then existing short and long range plans for the manufacture and marketing of plain paper office copiers.

43. *Sixth*, all agreements by Xerox with any third parties which are presently in effect, under which Xerox obtains or possesses the right to obtain patents, patent applications or technical information in the field of xerography, should be declared illegal and of no further force and effect. The New Manufacturing Companies should be enjoined for a period of ten years from entering into any exclusive agreement with any third party, under which such new companies would obtain exclusive ownership or control over any such assets or rights.

44. *Seventh*, all agreements by Xerox with Rank-Xerox, Fuji-Xerox and any of their subsidiaries or affiliates, under which the rights to foreign patents, patent applications and other xerographic technology have been or will be licensed or

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assigned, should be declared illegal and of no further force and effect. The New Manufacturing Companies should be enjoined for a period of ten years from entering into any agreement with those companies under which they obtain any exclusive rights with respect to any foreign patents or patent applications, or any technical information or assistance.

45. *Eighth*, Xerox should be required to divest itself of any stock ownership or interest in Rank-Xerox, Fuji-Xerox and any of their subsidiaries and affiliates. The New Manufacturing Companies and the New Marketing Companies should each be enjoined for a period of ten years from acquiring in whole or in part the stock of any other company engaged in activities involving the skill, technology, manufacture or marketing of plain paper office copiers, or from acquiring any other company's assets which are involved in, or related to, those activities. The sale of any of their assets or stock to any other company so engaged should likewise be enjoined for that period.

46. *Ninth*, the restrictive agreements described in subparagraph 27(d), should be declared unlawful, of no further force and effect and permanently enjoined.

47. The effects of such remedial relief will be:

(a) to enable the New Manufacturing Companies to continue Xerox's research and manufacturing at present levels and to permit the expansion of its activities and facilities in a competitive atmosphere so that continuing and increasing demands for plain paper office copiers can be competitively satisfied during the time needed for SCM and others to develop competitive research and manufacturing facilities;

(b) to create competition in the marketing of plain paper office copiers, bringing the benefits of price competition and other forms of marketing competition to users and the public;

(c) to afford SCM and others a fair opportunity to develop sufficient market shares which will stimulate competition and justify substantial investment by SCM and

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others in research and manufacturing facilities and activities;

(d) to eliminate the technological, manufacturing, marketing and other leads with respect to plain paper office copiers and xerography which Xerox possesses;

(e) to eliminate the effects of Xerox's monopolistic position and its anticompetitive acts and practices with respect to plain paper office copiers; and

(f) to establish full and fair competition in American interstate and foreign commerce with respect to:

(i) the skill, technology and manufacture of plain paper office copiers; and

(ii) the marketing of such copiers.

48. The Court should retain continuing jurisdiction after entry of judgment. It can then make such modifications or amendments to its judgment as may be appropriate based on post-judgment facts, to achieve the objectives described in the preceding paragraph.

*B. Preliminary Relief During the Pendency of This Action.*

49. During the pendency of this action, Xerox should be enjoined from threatening, instituting or maintaining any patent infringement action or claim against SCM with respect to SCM's present and future efforts to develop and market plain paper office copiers. The New Manufacturing Companies should be similarly enjoined permanently, except to the extent that SCM does not accept any patent licenses offered by such new companies on terms and conditions decreed by this Court.

50. During the pendency of this action Xerox should be enjoined or stayed, directly or indirectly, from threatening, instituting or maintaining any other action or claim here or abroad which might impede SCM's present and future efforts with respect to plain paper office copiers, or which might delay the final adjudication of this First Claim.



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51. During the pendency of this action, Xerox should be mandatorily enjoined to grant SCM a license with respect to all the United States and foreign patents and patent applications it owns or controls. Upon adjudication of this First Claim, it should be determined (in accordance with subparagraph 39 (a) above) whether such license should be royalty-free or whether it should bear a reasonable royalty rate; and whether and to what extent any royalty rate decreed by the Court should be applied retroactively.

52. During the pendency of this action, Xerox should be mandatorily enjoined to disclose its present short and long range plans for the manufacture and marketing of plain paper office copiers.

53. During the pendency of this action, Xerox should be enjoined against enforcing or attempting to enforce the agreements described in subparagraph 27(d).

54. The injunctive relief during the pendency of this action described in paragraphs 49 to 53 above, and such other preliminary injunctive relief as may be appropriate, should be granted because of the continuing irreparable injury inflicted by Xerox's acts and practices on SCM, other potential and actual competitors of Xerox, users of plain paper office copiers and the public generally; and the likelihood that SCM will ultimately establish the violations of law and their effects as alleged in this First Claim.

55. Such injunctive relief during the pendency of this action should be granted so that effective first steps can be taken promptly toward the establishment of full and fair competition in the skill, technology, manufacture and marketing of plain paper office copiers.

## SCM'S SECOND CLAIM: FOR TREBLE DAMAGES

**SCM's Damages by Reason of Xerox's Unlawful Monopolization and Acts and Practices in Restraint of Trade and Competition with Respect to the Skill and Technology and Manufacture and Marketing of Plain Paper Office Copiers.**

56. The allegations contained in paragraphs 6 to 29 of the First Claim are repeated and re-alleged.

57. Xerox's continuing unlawful monopolization, exclusive control and acts and practices in restraint of trade and competition with respect to the skill and technology and the manufacture and marketing of plain paper office copiers, caused damage to SCM because they effected high barriers against competitive entry, and because they excluded and restrained SCM in American interstate and foreign commerce:

(a) from manufacturing and marketing plain paper office copiers;

(b) from engaging in related business activities such as the rendering of service and the sale of supplies for plain paper office copiers; and

(c) from earning profits from the conduct of such business activities.

58. By reason thereof, as presently estimated by it, SCM has been damaged, in the amount of at least \$145 million; and SCM shall continue to be damaged in an amount not presently known until such time as the effects of Xerox's unlawful acts and practices involved have been nullified.

59. Under 15 U.S.C. § 15, SCM is entitled to threefold the amount of at least \$145 million; together with threefold the damages suffered by it (in an amount not presently known) from this time until the nullification of the effects of Xerox's unlawful acts and practices; and together with the costs of recovering all of such damages in this action, including reasonable attorneys' fees.

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SCM'S THIRD CLAIM: FOR DECLARATORY, IN-  
JUNCTIVE AND DAMAGE RELIEF WITH RESPECT  
TO THE MIDDLETON-REYNOLDS '006 PATENT

60. On February 11, 1964, United States Patent No. 3,121,006, entitled "Photo-Active Member for Xerography" (the Middleton-Reynolds '006 patent), was issued. Xerox acquired ownership of that patent under its 1956 agreement with Battelle.

**The 1968 and 1964 License Agreements Between Xerox and SCM as to Coated Paper and Coated Paper Office Copiers.**

61. On June 3, 1968 SCM and Xerox entered into a patent license agreement in which, for specified royalties, and subject to a field-of-use restriction limiting the license to coated paper for use in coated paper office copiers, Xerox granted an express license to SCM with respect to the Middleton-Reynolds '006 patent and an implied license as to other Xerox patents necessary to SCM's restricted use of the '006 license rights.

62. Simultaneously with the execution of the June 3, 1968 agreement, a prior patent license agreement of April 6, 1964 between SCM and Xerox was terminated. Under that April 6, 1964 agreement, for specified royalties and subject to a field-of-use restriction limiting the license to coated paper and coated paper office copiers, Xerox granted a license to SCM with respect to all of its Western Hemisphere patents, one of which was the Middleton-Reynolds '006 patent.

63. On or about May 26, 1971, SCM gave notice in writing of its cancellation of the June 3, 1968 agreement. Until that time, SCM had paid royalties to Xerox under the April 6, 1964 and June 3, 1968 agreements in the total amount of \$639,192.62.

64. It is Xerox's claim that the direct electrostatic method employing zinc oxide as a photoconductor, used since 1962 in the manufacture of coated paper office copiers and coated paper marketed by SCM, infringed the Middle-

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ton-Reynolds '006 patent; and that absent a license from Xerox, such infringement violates Xerox's patent rights entitling it to injunctive and damage relief. Although Xerox claims that the agreement of June 3, 1968 remains in effect, it has not, as of this date, commenced any action against SCM for royalties since October 1, 1970 based upon any claim of breach of contract; nor has it commenced any action against SCM as of this time for any alleged infringement.

**The Invalidity, Unenforceability and Fraudulent Procurement of the Middleton-Reynolds '006 Patent.**

65. The Middleton-Reynolds '006 patent is invalid and unenforceable, and was procured by fraud and has been enforced in violation of the patent and antitrust laws because:

(a) The patent does not meet the conditions of patentability under 35 U.S.C. §§ 101, 102, 103 and 120 in that, among other things: (i) the claimed invention was not a new and useful process, machine, manufacture or composition of matter or a new and useful improvement thereof; (ii) the claimed invention was anticipated by or obvious in view of the prior art; (iii) Middleton and Reynolds did not themselves jointly invent the subject matter encompassed thereby; and (iv) Middleton and Reynolds abandoned the invention which they claimed to have made;

(b) The patent fails to particularly point out and distinctly claim the subject matter which Middleton and Reynolds regard as their invention;

(c) During the solicitation of the patent, recklessly or with intent to deceive, material facts were misrepresented or withheld from the Patent Office;

(d) An interference proceeding in the Patent Office was not contested when it was known that a conflict existed between claimed subject matter in the solicitation of the patent and claimed subject matter of an earlier filed and earlier issued patent;

(e) Xerox threatened and maintained patent infringement litigation against SCM and others, and extracted royalty payments from SCM and others, based on



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the patent, when it knew or should have known that the patent was invalid and unenforceable and had been procured by fraud as alleged in subparagraphs (a) through (d) above;

(f) Xerox licensed the patent on discriminatory, restrictive and other unlawful terms and conditions;

(g) Xerox acquired and unlawfully attempted to enforce the patent and other patents purchased by it under the 1956 Battelle agreement, as alleged in the First Claim; and

(h) Xerox imposed field-of-use restrictions in its licenses with SCM and others of the patent and other xerographic patents which, alone or together with Xerox's other acts and practices as alleged in the First Claim, had the effect of restraining and excluding SCM and others from competing with Xerox in the manufacture and marketing of plain paper office copiers.

**Relief With Respect to SCM's Third Claim.**

66. Under 28 U.S.C. § 2201 and the patent laws of the United States, and by reason of the existence of a case of actual controversy between the parties with respect to the matters involved, this Court should enter final judgment declaring that:

(a) the Middleton-Reynolds '006 patent is invalid and unenforceable and was procured by fraud; and

(b) under the June 3, 1968 agreement or otherwise, SCM is not obligated to pay and Xerox is not entitled to recover any further royalties or other relief with respect to any claimed breach of that agreement or any claimed infringement of the Middleton-Reynolds '006 patent.

67. SCM is entitled under 15 U.S.C. § 15 to threefold the damages suffered by it by reason of Xerox's fraudulent procurement of the Middleton-Reynolds '006 patent, and its enforcement of that fraudulently procured patent against SCM by the extraction of royalty payments in violation of Sections 1 and 2 of the Sherman Act, because such enforcement has had the effect of unreasonably restraining or of monopolizing or attempting to monopolize the manufacture and marketing of coated paper office copiers and coated

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paper. SCM should recover from Xerox threefold the amount of at least \$612,116.97 of the royalties paid by SCM to Xerox, together with the costs of obtaining such judgment, including reasonable attorneys' fees.

68. Xerox should be permanently enjoined from enforcing the Middleton-Reynolds '006 patent.

WHEREFORE, this Court should grant the interlocutory and permanent relief requested with respect to each of the claims in this complaint; the damages sought with respect to the Second and Third Claims; the disbursements, attorneys' fees and other costs as are allowable in law and in equity; and such other and further relief as this Court deems just and proper as to each Claim.

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November 2, 1973

**Answer and Counterclaims—Filed November 12, 1973.**

**UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF CONNECTICUT**

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**[S A M E T I T L E]**

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**ANSWER**

Defendant Xerox Corporation ("Xerox") for its answer to the Amended Complaint (hereinafter the "complaint"), alleges:

1. Denies each and every allegation contained in paragraph 1 of the complaint.

2. Denies each and every allegation contained in paragraph 2 of the complaint, except admits that plaintiff purports to institute this action under Sections 4 and 16 of the Clayton Act (15 U.S.C. §§ 15 and 26) for injunctive relief and damages.

3. Denies each and every allegation contained in paragraph 3 of the complaint, except admits that Xerox is engaged in commerce within the meaning of the Sherman and Clayton Acts.

4. Admits the allegations contained in paragraph 4 of the complaint.

5. Denies knowledge or information sufficient to form a belief as to the truth of the allegations contained in paragraph 5 of the complaint, except admits that Xerox is a corporation organized and existing under the laws of the State of New York, is engaged in the manufacture and marketing of plain paper office copiers and that SCM is engaged in the manufacture and marketing of coated paper office copiers.

6. Denies each and every allegation contained in paragraph 6 of the complaint, except admits that it purports

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to state an unduly narrow definition of "plain paper office copiers" which is used throughout the complaint. (Although denying the validity of this definition, this answer will nevertheless respond to the allegations of the complaint in terms which assume that the definition in paragraph 6 of the complaint applies.)

7. Denies each and every allegation contained in paragraph 7 of the complaint.

8. Admits the allegations of the first sentence of paragraph 8 of the complaint, except denies knowledge or information sufficient to form a belief as to whether a plain paper office copier recently advertised by Minnesota Mining and Manufacturing Co. employs xerography; denies each and every allegation contained in the second sentence of paragraph 8, except admits that the name "xerography" was selected in 1948 by Xerox and Battelle to describe the art of forming and utilizing an electrostatic charge pattern on an insulating or photoconductive insulating surface; and admits the allegations contained in the third sentence of paragraph 8 of the complaint.

9. Denies each and every allegation contained in the first sentence of paragraph 9 of the complaint and denies knowledge or information sufficient to form a belief as to the truth of the second sentence of paragraph 9 of the complaint, except admits that Xerox has employed xerography in all of its plain paper office copiers.

10. Denies each and every allegation contained in paragraph 10 of the complaint.

11. Denies each and every allegation contained in the first two sentences of paragraph 11 of the complaint; and denies information sufficient to form a belief as to the truth of the allegations of the third sentence of paragraph 11 of the complaint.



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12. Denies each and every allegation contained in paragraph 12 of the complaint.

13. Denies each and every allegation contained in paragraph 13 of the complaint.

14. Denies each and every allegation contained in paragraph 14 of the complaint.

15. Denies each and every allegation contained in paragraph 15 of the complaint.

16. Denies each and every allegation contained in paragraph 16 of the complaint, except admits that inventions by Chester Carlson marked the beginning of xerography and that certain of these inventions were covered by four patents which issued between 1940 and 1944 and which expired between 1957 and 1961.

17. Denies each and every allegation contained in paragraph 17 of the complaint, except admits that Battelle and Carlson entered into an agreement in 1944 which provided that Battelle was appointed exclusive agent for the purpose of negotiating and granting licenses under three of the four patents referred to in paragraph 16 of the complaint and the predecessor patent application of the fourth patent, and that Battelle was to be diligent in prosecuting research and development work to perfect and improve these inventions and in trying to promote commercial use of these inventions. (Reference to the agreement is necessary for its precise terms.)

18. Denies each and every allegation contained in paragraph 18 of the complaint, except admits that Xerox entered into agreements with Battelle effective between 1947 and 1956 under which Xerox ultimately obtained an

*Answer and Counterclaims—Filed November 12, 1973.*

exclusive license under the four Carlson patents referred to in paragraph 16, certain other issued United States and foreign xerographic patents owned or controlled by Battelle, and certain other patents which Battelle might subsequently own or control relating to these inventions and Battelle carried on xerographic research and development activities for Xerox. (Reference to the agreements are necessary for their precise terms.)

19. Denies each and every allegation contained in paragraph 19 of the complaint, except admits that Xerox and Battelle entered into an agreement effective as of 1956 under which Battelle assigned to Xerox the four Carlson patents referred to in paragraph 16, licensed certain of its patents, patent applications and technical information relating to xerography for a certain period and granted certain contingent rights to those and future patents, patent applications and technical information of Battelle relating to xerography. (Reference to the agreement is necessary for its precise terms.)

20. Admits the allegations of paragraph 20 of the complaint.

21. Denies each and every allegation contained in paragraph 21 of the complaint, except admits that in 1960 Xerox entered into an agreement with Horizons, Inc. under which certain United States and foreign patents and patent applications relating to xerography were assigned to Xerox, and Horizons, for a period of time thereafter, performed xerographic research exclusively for Xerox. (Reference to the agreement is necessary for its precise terms.)

22. Denies each and every allegation contained in paragraph 22 of the complaint, except admits that Xerox obtained access to certain patented and unpatented xerographic technology developed by other companies under

*Answer and Counterclaims—Filed November 12, 1973.*

various types of agreements including license, cross license and consulting agreements. (Reference to the agreements are necessary for their precise terms.)

23. Denies each and every allegation contained in paragraph 23 of the complaint, except admits that by the end of 1961 the four Carlson patents referred to in paragraph 16 had expired, Xerox owned about 1,000 United States and foreign xerographic patents and patent applications and Xerox had obtained contingent rights to certain future research and development by Battelle, Horizons and others. (Reference to the agreements are necessary for their precise terms.)

24. Denies each and every allegation contained in paragraph 24 of the complaint.

25. Denies each and every allegation contained in paragraph 25 of the complaint.

26. Denies each and every allegation contained in paragraph 26 of the complaint.

27. Denies each and every allegation contained in paragraph 27(a) of the complaint; denies each and every allegation contained in paragraph 27(b) of the complaint, except admits the facts admitted in paragraphs 20 through 23 of this answer; denies each and every allegation contained in paragraph 27(c) of the complaint; denies each and every allegation contained in paragraph 27(d) of the complaint, except admits that until 1970 Xerox entered into agreements with research, scientific and technical employees whereby they agreed for a period following termination of their employment with Xerox not to engage in xerographic activities; denies each and every allegation contained in paragraph 27(e) of the complaint; denies each

*Answer and Counterclaims—Filed November 12, 1973.*

and every allegation contained in paragraph 27(f) of the complaint, except admits that since 1961 Xerox has expanded its xerographic research and development facilities and activities and the number of professional and skilled employees engaged in those activities; denies each and every allegation contained in paragraph 27(g) of the complaint; denies each and every allegation contained in paragraph 27(h) of the complaint; denies each and every allegation contained in paragraph 27(i) of the complaint; denies each and every allegation contained in paragraph 27(j) of the complaint; denies each and every allegation contained in paragraph 27(k) of the complaint, except admits that Xerox entered into certain license agreements under xerographic patents under which the licensee received from Xerox rights with respect to defined fields not including the manufacture or marketing of plain paper office copiers; denies each and every allegation contained in paragraph 27(l) of the complaint; denies each and every allegation contained in paragraph 27(m) of the complaint; denies each and every allegation contained in paragraph 27(n) of the complaint, except admits that Xerox did not grant requests by SCM and certain others for patent licenses with respect to plain paper office copying prior to 1970, but in 1970 Xerox affirmatively offered such licenses under certain of its patents; denies each and every allegation contained in paragraph 27(o) of the complaint; denies each and every allegation contained in paragraph 27(p) of the complaint, except admits that Xerox threatened to institute and instituted certain patent infringement suits to vindicate its patent rights against infringing competitors, including SCM; denies each and every allegation contained in paragraph 27(q) of the complaint; denies each and every allegation contained in paragraph 27(r) of the complaint, except admits that since 1965 Xerox has developed and manufactured new and improved models of plain paper office copiers using technology developed by



*Answer and Counterclaims—Filed November 12, 1973.*

Xerox and has continued to use technology developed at Battelle, Horizons and elsewhere; denies each and every allegation contained in paragraph 27(s) of the complaint, except admits that Xerox has expanded its manufacturing and marketing facilities, personnel, capabilities, and product line since 1961; denies each and every allegation contained in paragraph 27(t) of the complaint.

28. Denies each and every allegation contained in paragraph 28 of the complaint.

29. Denies each and every allegation contained in paragraph 29 of the complaint.

30. Denies each and every allegation contained in paragraph 30 of the complaint.

31. Denies each and every allegation contained in paragraph 31 of the complaint.

32. Denies each and every allegation contained in paragraph 32 of the complaint.

33. Denies each and every allegation contained in paragraph 33 of the complaint.

34. Denies each and every allegation contained in paragraph 34 of the complaint.

35. Denies each and every allegation contained in paragraph 35 of the complaint.

36. Denies each and every allegation contained in paragraph 36 of the complaint.

37. Denies each and every allegation contained in paragraph 37 of the complaint.

*Answer and Counterclaims—Filed November 12, 1973.*

38. Denies each and every allegation contained in paragraph 38 of the complaint.

39. Denies each and every allegation contained in paragraph 39 of the complaint.

40. Denies each and every allegation contained in paragraph 40 of the complaint.

41. Denies each and every allegation contained in paragraph 41 of the complaint.

42. Denies each and every allegation contained in paragraph 42 of the complaint.

43. Denies each and every allegation contained in paragraph 43 of the complaint.

44. Denies each and every allegation contained in paragraph 44 of the complaint.

45. Denies each and every allegation contained in paragraph 45 of the complaint.

46. Denies each and every allegation contained in paragraph 46 of the complaint.

47. Denies each and every allegation contained in paragraph 47 of the complaint.

48. Denies each and every allegation contained in paragraph 48 of the complaint.

49. Denies each and every allegation contained in paragraph 49 of the complaint.

*Answer and Counterclaims—Filed November 12, 1973.*

50. Denies each and every allegation contained in paragraph 50 of the complaint.

51. Denies each and every allegation contained in paragraph 51 of the complaint.

52. Denies each and every allegation contained in paragraph 52 of the complaint.

53. Denies each and every allegation contained in paragraph 53 of the complaint.

54. Denies each and every allegation contained in paragraph 54 of the complaint.

55. Denies each and every allegation contained in paragraph 55 of the complaint.

56. Repeats and realleges the allegations of paragraphs 6 to 29 of this answer.

57. Denies each and every allegation contained in paragraph 57 of the complaint.

58. Denies each and every allegation contained in paragraph 58 of the complaint.

59. Denies each and every allegation contained in paragraph 59 of the complaint.

60. Denies each and every allegation of paragraph 60 of the complaint, except admits that on February 11, 1964, U.S. Patent 3,121,006, entitled "Photo-Active Member for Xerography" (the Middleton-Reynolds '006 patent), was issued and that Xerox owns said patent.

*Answer and Counterclaims—Filed November 12, 1973.*

61. Denies each and every allegation contained in paragraph 61 of the complaint, except admits that SCM and Xerox entered into an agreement dated June 3, 1968, providing for a license to SCM, for specified royalties, to make, use and sell coated paper and equipment for making xerographic coated paper copies for use in the process of the Middleton-Reynolds '006 patent, with license rights also under other patents owned or controlled by Xerox as were directly necessary to enjoyment of the foregoing rights (all as defined in the agreement). (Reference to the agreement is necessary for its precise terms.)

62. Admits the allegations of the first sentence of paragraph 62 of the complaint and denies each and every allegation contained in the second sentence of paragraph 62 of the complaint, except admits that SCM and Xerox entered into an agreement dated April 6, 1964, providing for a license to SCM, for specified royalties, to make, use and sell coated paper and equipment for making xerographic copies under patents owned or controlled by Xerox in the Western Hemisphere, including the Middleton-Reynolds '006 patent (all as defined in the agreement). (Reference to the agreement is necessary for its precise terms.)

63. Admits the allegations contained in the first sentence of paragraph 63 of the complaint; denies each and every allegation of the second sentence of the complaint, except admits that SCM paid royalties to Xerox under the April 6, 1964 and June 3, 1968 agreements in the total amount of \$639,192.62.

64. Denies each and every allegation of paragraph 64 of the complaint, except admits that Xerox maintains that the manufacture and sale by SCM of coated paper office copiers and coated paper since 1962, but for a license from Xerox



*Answer and Counterclaims—Filed November 12, 1973.*

during part of that period, infringed, contributorily infringed and/or induced infringement of the Middleton-Reynolds '006 patent and for the part of that period during which SCM was unlicensed Xerox would be entitled to injunctive and damages relief in a suit for such infringement, and that the agreement of June 3, 1968 remained in effect until about November 30, 1971 and Xerox did not, prior to this date, commence any action against SCM for breach of contract or for infringement.

65. Denies each and every allegation contained in paragraph 65 of the complaint.

66. Denies each and every allegation contained in paragraph 66 of the complaint.

67. Denies each and every allegation contained in paragraph 67 of the complaint.

68. Denies each and every allegation contained in paragraph 68 of the complaint.

FIRST AFFIRMATIVE DEFENSE

69. The claims alleged in the complaint are barred, in whole or in part, by the applicable statutes of limitations.

SECOND AFFIRMATIVE DEFENSE

70. SCM is estopped, in whole or in part, by reason of laches from asserting the claims alleged in the complaint.

FIRST COUNTERCLAIM

For its first counterclaim against the plaintiff, Xerox alleges:

*Answer and Counterclaims—Filed November 12, 1973.*

71. This Court has jurisdiction of this counterclaim pursuant to Rule 13 of the Federal Rules of Civil Procedure.

72. Effective January 1, 1968, SCM and Xerox entered into a license agreement (hereinafter "the 1968 agreement").

73. Effective about November 30, 1971 the 1968 agreement terminated pursuant to the terms thereof.

74. SCM is now and has been obligated to pay royalties to Xerox for SCM's activities under the 1968 agreement prior to its termination in accordance with the provisions of said agreement.

75. Since about May 1, 1970 and continuously thereafter, SCM has failed to perform the obligations and duties required by the 1968 agreement in that SCM has failed to pay to Xerox royalties due and owing under said agreement for SCM's activities during the period of about January 1, 1970 through November 30, 1971.

76. SCM is now and has been obligated to render written reports to Xerox concerning its activities under the 1968 agreement prior to its termination in accordance with the provisions of said agreement.

77. Since about May 1, 1970 and continuously thereafter, SCM has failed to perform the obligations and duties required by the 1968 agreement in that SCM has failed to render the written reports covering its activities during the period of about January 1, 1970 through November 30, 1971 as required by the 1968 agreement.

78. SCM has refused to pay the aforesaid royalties or to render the aforesaid reports.

*Answer and Counterclaims—Filed November 12, 1973.*

79. Xerox has been damaged by the acts of SCM and by SCM's failure to perform the aforesaid obligations and duties under the 1968 agreement.

SECOND COUNTERCLAIM

For its second counterclaim against the plaintiff, Xerox alleges:

80. Repeats and realleges the allegations of Paragraphs 71 to 79 of Xerox' First Counterclaim.

81. This is a Counterclaim for patent infringement arising under the Patent Laws of the United States. This Court has jurisdiction pursuant to Rule 13 of the Federal Rules of Civil Procedure.

82. On or about February 11, 1964 U.S. Letters Patent 3,121,006 was duly and legally issued. Xerox is now the owner of said Letters Patent and has been the owner thereof since its date of issuance.

83. Since about December 1, 1971, SCM has infringed, contributorily infringed and/or induced others to infringe the aforesaid Letters Patent 3,121,006 by making, using, selling, and/or leasing within the United States copiers and/or duplicators and special coated paper therefor, for use in the invention of said Letters Patent, and SCM will continue to do so to the irreparable damage and loss of Xerox unless enjoined by this Court.

84. SCM's infringement of the aforesaid patent has been willful, wanton and deliberate.

THIRD COUNTERCLAIM

For its third counterclaim against the plaintiff, Xerox alleges:

*Answer and Counterclaims—Filed November 12, 1973.*

85. Repeats and realleges the allegations of Paragraphs 71 to 84 of Xerox' First and Second Counterclaims, as though fully set forth herein.

86. This is a Counterclaim for patent infringement arising under the Patent Laws of the United States. This Court has jurisdiction pursuant to Rule 13 of the Federal Rules of Civil Procedure.

87. On about June 27, 1972 U.S. Letters Patent 3,672,884 was duly and legally issued. Xerox is now the owner of said Letters Patent and has been the owner thereof since its date of issuance.

88. SCM has infringed, contributorily infringed, and/or induced others to infringe the aforesaid Letters Patent 3,672,884 by making, using, selling and/or leasing within the United States copiers and/or duplicators and liquid developer therefor, for use in the invention of said Letters Patent, and SCM will continue to do so to the irreparable damage and loss of Xerox unless enjoined by this Court.

89. SCM's infringement of the aforesaid patent has been willful, wanton and deliberate.

WHEREFORE, Xerox prays that this Court enter a judgment and decree:

1. Dismissing SCM's complaint and all claims therein.
2. Ordering SCM to render to Xerox the written reports required by the 1968 agreement.
3. Awarding Xerox an accounting under its First Counterclaim, and that upon such accounting Xerox have judgment against SCM for the amounts found due and owing from SCM to Xerox thereby, together with legal interest from the date of the accrual of such amounts.



*Answer and Counterclaims—Filed November 12, 1973.*

4. Permanently enjoining SCM, its officers, agents, servants, employees and those persons in active concert or participation with SCM, from infringing the Xerox patents referred to in Xerox' Second and Third Counterclaims.

5. Awarding Xerox damages resulting from SCM's willful, wanton and deliberate infringement of the Xerox patents referred to in Xerox' Second and Third Counterclaims, and that said damages be trebled.

6. Awarding Xerox its costs herein and reasonable attorney's fees.

7. Granting Xerox such other and further relief as the Court may deem proper.

Dated: November 12, 1973.

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A Member of the Firm

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JOHN R. MURPHY, Esq.  
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Stamford, Connecticut 06904

**Demand for Jury Trial—Filed November 12, 1973.**

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

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[S A M E T I T L E]

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DEMAND FOR JURY TRIAL

SIRS:

PLEASE TAKE NOTICE that defendant demands trial by jury in this action.

Dated: November 12, 1973.

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*Demand for Jury Trial—Filed November 12, 1973.*

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**SCM's Motion for Preliminary Injunction—Filed  
November 16, 1973.**

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

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[S A M E T I T L E]

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MOTION FOR PRELIMINARY INJUNCTION

Renewing its motion of July 31, 1973, made with respect to its original complaint, plaintiff hereby moves, pursuant to Rule 65(a) of the Federal Rules of Civil Procedure, based on the allegations set forth in paragraphs 1 through 30 and 54 and 55 of its amended complaint, and upon the evidence to be adduced at the hearing on this motion, for the preliminary injunctive relief requested in paragraphs 49 through 53 of the First Claim of its amended complaint, and for such other or further or alternative relief as may be appropriate and necessary and as the Court may deem just and proper.

As more fully described in plaintiff's motion, made simultaneously herewith, for separate trial and stay, plaintiff requests that, subject to its convenience, the Court schedule May 1, 1974 as the commencement date of the hearing of plaintiff's motion for preliminary injunction in the event that the Court denies that motion for separate trial and stay, or in the event the Court grants that motion but later determines that the parties have been unable to



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*SCM's Motion for Preliminary Injunction—Filed  
November 16, 1973.*

complete preparation for such separate trial by or about  
that time.

The Plaintiff  
SCM CORPORATION  
By Its Attorneys

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**Plaintiff's Motion for Separate Trial and for Ancillary  
Relief—Filed November 16, 1973.**

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

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[SAME TITLE]

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SCM's RULE 42(b) MOTION FOR SEPARATE TRIAL OF THE  
ISSUES OF XEROX'S ALLEGED VIOLATIONS OF THE ANTI-  
TRUST LAWS, AND FOR ANCILLARY RELIEF; AND THE SUP-  
PORTING GROUNDS THEREFOR.

A. *First*, SCM moves under Rule 42(b) of the FRCP and in the exercise of the Court's power and discretion, for an order directing separate trial (before a jury because of Xerox's demand) of the issues of whether, as alleged in the First Claim of the amended complaint, Xerox has violated each of Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act; and pending such separate trial, staying any other proceedings with respect to all other issues, claims or counterclaims in this action. SCM requests that such separate trial, subject to the Court's convenience, be scheduled to commence on May 1, 1974.

Such an order will be conducive to expedition and economy and will be in furtherance of the convenience of the Court and the parties. It will avoid prejudicial delay in the adjudication of the claimed violations of law and, if such are found to exist, in the determination of preliminary and permanent equitable relief as to matters concerning present and future plain paper office copier competition which are of great public and private importance.

*Plaintiff's Motion for Separate Trial and for Ancillary Relief—Filed November 16, 1973.*

Such an order will best promote and expedite the orderly administration of justice in this action and will not prejudice and will fully preserve the rights of the parties, including Xerox's claim of right to trial by jury.

B. *Second*, in the event the Court denies SCM's first motion for separate trial and stay, or in the event the Court grants such motion, but later determines that the parties have been unable to complete preparation for trial by May 1, 1974, despite diligent efforts to do so, SCM moves, in the exercise of the Court's power and discretion and subject to its convenience, and for the reasons described above, for an order scheduling May 1, 1974 as the commencement date of the hearing on SCM's contemporaneous motion for a preliminary injunction.

C. *Third*, with respect to SCM's Third Claim in its amended complaint and Xerox's first two counterclaims involving the Middleton-Reynolds '006 patent, SCM also moves, in the exercise of the Court's power and discretion, for an order staying any proceedings until final adjudication of the prior-commenced and presently pending litigations relating to that patent among Xerox and Dennison Manufacturing Co., Nashua Corp., Saxon Business Products, Inc., Litton Industries, Inc., Litton Business Systems, Inc. and Litton Systems, Inc.

Under *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971), any judgment adverse to Xerox with respect to that patent in any of those other litigations where Xerox had a full and fair opportunity to litigate the matters involved, will be given collateral estoppel effect in this action. Accordingly, a stay of all proceedings with respect to SCM's Third Claim

*Plaintiff's Motion for Separate Trial and for Ancillary  
Relief—Filed November 16, 1973.*

will be in the interests of the orderly administration of justice by avoiding a misallocation of the resources of the Court and of the parties at this juncture and by avoiding potentially unnecessary and burdensome litigation proceedings which may prove to be redundant."

D. *Fourth*, SCM moves for such other and further relief with respect to the matters raised by the foregoing motions as the Court may deem just and proper.

The Plaintiff  
SCM CORPORATION  
By Its Attorneys

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**Reply—Filed December 5, 1973.**

**UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF CONNECTICUT**

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**[S A M E T I T L E]**

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**REPLY**

Plaintiff SCM Corporation ("SCM"), by its attorneys for its Reply to the three counterclaims set forth in the Answer of Xerox Corporation, and on knowledge as to matters pertaining to itself and on information and belief as to all other matters, alleges:

**AS TO XEROX'S FIRST AND SECOND COUNTERCLAIMS RELATING  
TO THE MIDDLETON & REYNOLDS '006 PATENT.**

1. Admits the allegations contained in paragraph 71 and as realleged in paragraph 80, and the allegations contained in paragraph 81 of the Answer.
2. Admits the allegations contained in paragraph 72, and as realleged in paragraph 80 of the Answer; and avers that the 1968 agreement was entered into by Xerox and by SCM on or about June 3, 1968, and was made effective as of January 1, 1968, all as more fully alleged in paragraph 62 of the Amended Complaint.
3. Denies the allegations contained in paragraphs 73, 74, 75, 76, 77, 78 and 79, and as realleged in paragraph 80 of the Answer, and denies the allegations contained in paragraphs 83 and 84 of the Answer.
4. Denies the allegations contained in the first sentence of paragraph 82 of the Answer, except admits that U.S.

*Reply—Filed December 5, 1973.*

Letters Patent No. 3,121,006 ("Middleton and Reynolds '006 patent") was issued on or about February 11, 1964 on a patent application originally filed May 25, 1949; and admits the allegations contained in the second sentence of paragraph 82 of the Answer and avers that Xerox acquired ownership of that patent by its purchase from Battelle of the underlying application, pursuant to the terms of its 1956 agreement with Battelle.

*First Defense*

5. Xerox's first and second counterclaims each fail to state a claim against SCM upon which relief can be granted.

*Second Defense*

6. The 1968 agreement was of no force and effect by reason of the invalidity, unenforceability, or fraudulent procurement of the Middleton and Reynolds '066 patent, as alleged in paragraph 65 of the Amended Complaint.

*Third Defense*

7. SCM realleges paragraphs 60 through 66, inclusive, of its Amended Complaint.

AS TO XEROX'S THIRD COUNTERCLAIM RELATING TO THE  
MAYER '884 PATENT.

8. As to the allegations contained in paragraph 85 of the Answer, to the extent they repeat and reallege the allegations relating to Xerox's first and second counterclaims contained in paragraphs 72 through 84 inclusive of that Answer, SCM avers that such earlier paragraphs are irrelevant and immaterial to Xerox's third counterclaim, and subject to that averment, SCM repeats and realleges

*Reply—Filed December 5, 1973.*

the allegations contained in paragraphs 1 to 7 of this Reply.

9. Admits the allegations contained in paragraph 71 as realleged in paragraph 85 of the Answer, and admits the allegations contained in paragraph 86 of the Answer.

10. With respect to the allegations contained in the first sentence of paragraph 87 of the Answer, admits that on or about June 27, 1972, U.S. Letters Patent No. 3,672,884 (the Mayer '884 Patent) was issued on an application originally filed on September 15, 1953, and denies any present knowledge, information or belief as to whether that patent was duly and legally issued; and admits the allegations contained in the second sentence of paragraph 87 and avers that Xerox acquired ownership by its purchase from Horizons of the underlying application, pursuant to the terms of its 1960 agreement with Horizons.

11. Denies the allegations contained in paragraphs 88 and 89 of the Answer.

*First Defense*

12. Xerox's third counterclaim fails to state a claim against SCM upon which relief can be granted.

*Second Defense*

13. SCM repeats and realleges the allegations contained in the First Claim of its Amended Complaint, and the allegations contained in subparagraph 65(h) of its Amended Complaint; and by reason thereof, the Mayer '884 patent is unenforceable against SCM.

WHEREFORE, this Court should dismiss each of Xerox's three counterclaims and should grant to SCM the disburse-

*Reply—Filed December 5, 1973.*

ments, attorneys' fees and other costs as are allowable in law and in equity, and such other and further relief as this Court deems just and proper.

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Attorneys for Plaintiff  
SCM CORPORATION

November 21, 1973.



**Decision on Plaintiff's Motion for Severance of Issues  
and Other Relief—Entered January 3, 1974.**

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

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[S A M E T I T L E]

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**MEMORANDUM OF DECISION ON PLAINTIFF'S MOTION FOR  
SEVERANCE OF ISSUES AND OTHER RELIEF**

In this private treble-damage antitrust action alleging violations of §§ 1 and 2 of the Sherman Act and § 7 of the Clayton Act, 15 U.S.C. §§ 1, 2, and 15, plaintiff SCM has filed a motion seeking in various ways to structure the course and timing of the litigation. The motion concerns (a) the trial of the antitrust issues, (b) a hearing on a motion for a preliminary injunction, and (c) the trial of the patent issues.

(a). *The antitrust issues.* SCM seeks, pursuant to Fed. R. Civ. P. 42(b), a severance and separate trial of the issues as to whether Xerox has violated §§ 1 and 2 of the Sherman Act and § 7 of the Clayton Act, and a stay of all other issues pending such separate trial. By identifying the issues of violation, SCM is not seeking, as Xerox understandably interpreted the motion, to separate the issues of violation *per se* from the issues of whether any violations by Xerox have had sufficient impact upon SCM to give rise to a private cause of action under § 4 of the Clayton Act. As was made clear at oral argument, SCM uses the term "violation" as the equivalent of "liability," and recognizes that violations of the statutes and some evidence of the impact of such violations upon a complainant are both essential ingredients of liability under

*Decision on Plaintiff's Motion for Severance of Issues  
and Other Relief—Entered January 3, 1974.*

§ 4. *Duff v. Kansas City Star Co.*, 299 F.2d 320, 323 (8th Cir. 1962); *Hart v. B. F. Keith Vaudeville Exchange*, 12 F.2d 341, 345 (2d Cir. 1926). What SCM wants severed in the jury trial, which Xerox has claimed, is all of the evidence relating to Xerox's antitrust liability to SCM, leaving for separate consideration only the evidence concerning the amount of damages.

Both sides agree that Rule 42(b) permits such severance, and that it has occurred in the context of antitrust litigation. See, e.g., *Union Leader Corp. v. Newspapers of New England, Inc.*, 180 F.Supp. 125 (D. Mass. 1960), *modified on other grounds*, 284 F.2d 582 (1st Cir. 1961). They differ sharply on the appropriateness of severance and the procedure by which any severance should be accomplished.

SCM wants two trials before two different juries. It contemplates an early trial of the liability issues, hopefully by May 1, 1974, with a trial of the damage issues deferred for a considerable time to permit the extensive discovery SCM expects Xerox will pursue in defense of damage claims. Xerox, while preferring a unitary trial, expresses no special objection to a severance accomplished by a trial of the liability issues followed immediately, in the event of a plaintiff's verdict, by a trial of the damage issues before the same jury. SCM urges its procedure essentially for a combination of three reasons: timing, convenience, and the public interest.

First, SCM argues that the liability issues can be readied for trial at an early date, whereas the damage issues cannot. SCM's argument is premised on its view that the relevant market is plain paper copiers, whereas Xerox contends it includes coated paper copiers and other duplicating equipment. This dispute is critical to the likelihood of early trial on the liability issues, since SCM agrees that discovery appropriate to develop evidence of the broader

*Decision on Plaintiff's Motion for Severance of Issues  
and Other Relief—Entered January 3, 1974.*

market definition urged by Xerox would take considerable time, enough to make SCM's May 1 target totally unrealistic.

While no issue concerning discovery as to market definition is currently before this Court, it is impossible to assess the SCM argument for the feasibility of an early trial on liability issues without some consideration of the potential discovery timetable. SCM seems to contend that readily available evidence will easily establish the correctness of its position as to the relevant market. Even if that is so, it is difficult to see why that circumstance should preclude Xerox the opportunity that the discovery rules allow to attempt to develop evidence in support of its claim of a broader relevant market. It is conceivable that the issue of relevant market can be isolated for early determination and that sufficient undisputed facts can be presented to establish that SCM is entitled, in effect, to a partial "summary judgment" on this issue, *i.e.*, that no genuine issue of material fact exists to be resolved by the jury, see *Reliable Volkswagen Co. v. World-Wide Auto Corp.*, 34 F.R.D. 134, 137 (D. N.J. 1963), in adjudicating the parties' respective claims concerning relevant market. If SCM can make such a demonstration, in effect, establishing its position as a matter of law regardless of what countervailing facts Xerox might produce, then its claim as to the likelihood of early trial on the liability issues would be more impressive. But its claim cannot be accepted until the premise has been demonstrated, and this requires not merely the assertion that its position as to relevant market will prevail, but some basis for adjudication that its position is correct, even in the absence of the discovery to which Xerox would otherwise be entitled.

At oral argument, SCM suggested that the burden was on Xerox to demonstrate why it needed discovery on the



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market issue and what it hoped to discover. Wherever the burden may lie when appropriate motions put in issue the legitimate scope of discovery on the issue of market definition, the burden is certainly on SCM, in supporting its motion for severance and early trial of the liability issues, to demonstrate the correctness of the premise that underlies its argument. In the absence of some framing of issues that will lead to an adjudication that Xerox is not entitled to discovery to develop its claim of market definition, the SCM prediction of early trial on severed issues of liability cannot be accepted.

Secondly, SCM contends that severance is appropriate because the issues concerning liability and damages are generally distinct, such that intelligent jury consideration of the evidence will be enhanced by severance, and that there will be slight duplication of evidence at two trials, thereby minimizing any waste of time that might offset gains in jury comprehension. SCM also places on the balance of convenience the inevitable fact that a severance might obviate the trial of damages if the liability verdict is in favor of the defendant.

As with the issue of market definition, SCM's bare allegations do not provide a basis for reaching conclusions about the relative benefits of severance. Whether severance will promote jury comprehension and whether two trials will result in slight or extensive duplication of evidence depends on the nature and extent of the evidence on which SCM will rely to prove its damages. Neither that evidence, nor even SCM's theory of damage computation is presently known, which makes evaluation of its contentions virtually impossible. At oral argument, SCM suggested two approaches to damage computation. First, it might hypothesize by expert testimony the relative shares of the plain paper copier market Xerox and SCM would have had



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in the absence of the Xerox practices alleged to be in violation of the antitrust laws. Second, it might demonstrate the share of market and resulting profits made in an actual market from which it does not allege exclusion, such as coated paper copiers, and claim it would have made comparable profits in the absence of allegedly unlawful exclusion from the plain paper copier market. Cf. *Zenith Corp. v. Hazeltine*, 395 U.S. 100, 116 (1969).

This first approach appears highly likely to involve extensive duplication between proof of violation and proof of damage. It is hard to imagine how a second jury could intelligently appreciate and evaluate the expert testimony without a thorough understanding of the nature and extent of SCM's exclusion from the market. As for the second approach, it cannot now be determined whether the evidence will entitle SCM to proceed to establish damages by this technique. Moreover, Zenith's claim of damage, as to a *geographic area* from which it has been excluded, based on market share and profits for the same product line in an area of competition does not provide a precise analogy for SCM's claim of damage, as to a *product line* from which it has been excluded, based on market share and earnings for a different product line in an area of competition.

What is clear at this point is that damage computation will not be as separable from evidence of liability as would be the case with a violation such as price-fixing. Beyond that, there can be only a prediction of whether the nature of the evidence will be such that severance will be advantageous. In the absence of a more specific understanding as to how SCM will establish damages, that prediction must follow Judge Aldrich's observation that "in a private antitrust action liability and damages are not separate." *Haverhill Gazette Co. v. Union Leader Corp.*, 333 F.2d 798, 803 (1st Cir. 1964).

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As a third consideration bearing on severance and early trial of liability issues, SCM urges the public importance of securing an early adjudication of what it alleges to be Xerox's antitrust violations. SCM contends that without early adjudication of liability, Xerox's monopoly position, allegedly unlawfully acquired or maintained, will become increasingly more injurious to present and prospective competitors and more immune from ultimate judicial remedies. In effect, SCM is doubting that a district court's equitable remedies will be equal to the challenge that SCM, in its role as a private attorney general, wishes to raise. Without sharing or rejecting that doubt, this Court cannot appropriately weigh this public interest consideration against factors opposing a severance in the absence of a more persuasive showing that early adjudication of liability is feasible and that severance of liability issues will promote the efficient conduct of the trial. Based on what little is now known about the future course of this lawsuit and the evidence that will be presented, the motion for severance of liability issues and their trial by May 1 is denied. It may be that further identification and resolution of issues will demonstrate at a later date the appropriateness of severance at least on Xerox's terms, and possibly on SCM's.

(b). *The preliminary injunction.* As an alternative to its request for severance and early trial of the antitrust liability issues, SCM requests that a hearing be scheduled for May 1 on its motion for a preliminary injunction. This request raises two issues: whether SCM can overcome Xerox's objections to the injunction on legal issues, and the appropriate time for such a hearing.

The motion for a preliminary injunction seeks, presumably *pendente lite*, the relief sought in paragraphs 49

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through 53 of the amended complaint. These paragraphs demand, among other things, compulsory licensing on reasonable terms of several Xerox patents. Xerox contends that this type of relief is far beyond the preservation of the status quo for which, upon a proper showing, a preliminary injunction normally issues. Moreover, it is not clear whether the injury SCM seeks to prevent is the type of irreparable injury that justifies preliminary injunctive relief.

Xerox requests the opportunity to brief the legal issues raised by SCM's motion for a preliminary injunction. Such briefing would be helpful. Accordingly, the parties are directed to submit briefs as to whether Xerox is entitled to have SCM's motion for a preliminary injunction denied as a matter of law. In effect, this amounts to allowing Xerox to challenge the SCM motion for preliminary injunction by interposing the defense that SCM has failed, in various respects, to state a claim upon which the particular relief it is seeking can be granted. *Cf.* Fed. R. Civ. P. 12(b)(6). Since the parties in chambers conferences and at oral argument have already aired their basic contention on these issues, it seems appropriate to require simultaneous filing of briefs by both parties within thirty days from this date, with reply briefs, if desired, to be filed ten days later. Oral argument will be scheduled promptly thereafter at the request of either party.

As for the timing of a hearing on the motion for preliminary injunction, final decision on this matter can best be made after the parties have had an opportunity to present relevant considerations in their briefs. At this point it is sufficient to note that a preliminary injunction is normally entitled to expedited consideration, and even the complexity of antitrust litigation should not warrant a total abandonment of that principle. Accordingly, May 1, 1974,



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is tentatively set as a target date for a hearing on SCM's motion for preliminary injunction in the event that motion survives the legal defenses to be presented by Xerox in the requested briefs.

(c). *The patent issues.* Finally, SCM moves for severance of the patent validity and infringement issues, as contained in the Third Claim of its amended complaint and Xerox's first two counterclaims, and a stay of proceedings with respect to these issues pending final adjudication of proceedings in the District Court for the Southern District of New York involving some, but not all, of the patents in suit here. For reasons previously set forth with respect to identical contentions in the Litton-Xerox litigation in this District, the motion for severance of the patent validity and infringement issues is granted, and the motion for a stay of proceedings with respect to these issues is denied. *Xerox Corp. v. Litton Corp.*, Civil No. 15,705 (D. Conn. Mar. 30, 1973).

In sum, and as more fully detailed in the foregoing memorandum, as to part A. of SCM's motion, severance and designation of an early trial date of the antitrust liability issues is denied without prejudice; as to part B. May 1, 1974, is tentatively set as a target date for a hearing on SCM's motion for a preliminary injunction, and a briefing schedule is established as to legal issues relevant to that motion; as to part C. the request for severance of the patent issues is granted, and the request for a stay of proceedings with respect to those issues is denied.

Dated at Hartford, Connecticut, this 3 day of January, 1974.

s/ JON O. NEWMAN  
Jon O. Newman  
United States District Judge



**Pre-Trial Ruling No. 6—Entered April 19, 1974.**

## UNITED STATES DISTRICT COURT

## DISTRICT OF CONNECTICUT

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[SAME TITLE]

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## PRE-TRIAL RULING No. 6

At a preliminary stage in this complex antitrust litigation, both sides have joined issue on a traditional question that arises in an untraditional context. The question is whether plaintiff SCM is entitled to a hearing on its motion for a preliminary injunction. SCM has taken the unusual position of seeking a preliminary injunction in an antitrust case that is essentially alleged to be a monopolization case arising under § 2 of the Sherman Act. While the complaint alleges violations of both §§ 1 and 2 of the Sherman Act, as well as § 7 of the Clayton Act, the gravamen of the action appears to be SCM's claim that Xerox has monopolized and attempted to monopolize the skill and technology, manufacturing, and marketing of plain paper office copiers. It is certainly unusual for a party maintaining a § 2 claim to seek preliminary injunctive relief. Xerox contends that the government, facing the somewhat easier burden under § 15 of the Clayton Act than a private party encounters under § 16 of the Clayton Act, 15 U.S.C. §§ 25 and 26, has never sought preliminary injunctive relief in a § 2 case. In a rare instance, heavily relied on by SCM, where a private party obtained a preliminary injunction in a § 2 case, *Philadelphia World Hockey Club, Inc. v. Philadelphia Hockey Club, Inc.*, 351 F.Supp. 462 (E.D. Pa. 1972), at issue was a precise practice of the defendant, the reserve clause in players' contracts, rather than the defendant's

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overall monopoly power. Of course, the infrequency of the preliminary injunctive remedy in this context does not mean that such relief is unavailable. Understandably, however, it causes a court to scrutinize the claim with some care.

For its part Xerox has taken the unusual position of contending that plaintiff's motion for a preliminary injunction should be denied as a matter of law. In effect, defendant is demurring to plaintiff's motion, or, in the language of Fed. R. Civ. P. 12(b), raising the defense that plaintiff, in seeking a preliminary injunction, has failed to state a claim upon which relief can be granted. While the notion that a motion for preliminary injunction can be denied without a hearing is not unheard of, see *Schlosser v. Commonwealth Edison Co.*, 250 F.2d 478 (7th Cir. 1958), this would normally occur where there are no disputed facts on the merits, a situation that emphatically does not obtain here. However, a hearing has been denied primarily on the ground of an insufficient claim of irreparable injury. *In re South State Street Bldg. Corp.*, 140 F.2d 363 (7th Cir. 1944). While the rarity of precluding a hearing on a motion for a preliminary injunction makes the Court somewhat wary, the claim is entitled to consideration because at issue is not simply the presentation of affidavits supplemented by a few days of testimony, but in all likelihood a full-dress trial on the merits that will be measured in weeks or even months. Nor is there a realistic hope that detailed findings by the Court after the injunction hearing might persuade the parties to forego a second protracted hearing on the merits. This case has been claimed to a jury, and neither party is likely to think its chances of success with the jury are at all lessened by an adverse court decision on the propriety of a preliminary injunction.

All of these considerations prompted the Court on January 3, 1974, to request the parties to brief the issues

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concerning the need to hold a hearing on plaintiff's motion for a preliminary injunction. Oral argument was presented on March 6, 1974.

A threshold question is the determination of the precise extent of the preliminary relief that SCM is seeking. SCM has not filed as a distinct document a motion for a preliminary injunction; however, its amended complaint specifies in ¶¶ 49-53 the relief it believes should be granted "[d]uring the pendency of this action." These allegations are plainly sufficient to serve as a motion for a preliminary injunction. SCM has also suggested, in briefs and oral argument, additional types of injunctive relief that the Court might consider. And the amended complaint also includes in ¶ 54 a *pro forma* request for "such other preliminary injunctive relief as may be appropriate." There is no doubt that a Court's power to fashion an appropriate interim remedy is not circumscribed by the specifics of a plaintiff's motion. At the same time the plaintiff's entitlement to a hearing to establish its right to a preliminary injunction ought to be tested with reference to the specific relief it is seeking. If it is not entitled to the relief it is seeking, it should not be able to precipitate a protracted hearing that will require exploration of the merits of the suit simply in the hope that at the conclusion of the hearing the Court will fashion some appropriate remedy.

Defendant resists plaintiff's motion as a matter of law on the grounds that the relief sought constitutes a substantial alteration of the status quo, beyond the legitimate function of a preliminary injunction, and that plaintiff will not be irreparably injured for lack of a preliminary injunction. Both contentions will be considered with reference to the specific relief plaintiff has sought in ¶¶ 49-53 of the amended complaint.

Plaintiff seeks preliminary relief in three areas: patents, plans, and personnel. As to patents, SCM wants to



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enjoin Xerox from bringing any patent infringement action (§ 49) or any other action (§ 50) against SCM that might affect SCM's efforts with respect to plain paper copiers. SCM also wants Xerox to accord SCM a license with respect to all the United States and foreign patents and patent applications that Xerox owns or controls (§ 51). Whether the license is to be royalty free or upon reasonable terms is to be determined after adjudication of the merits. As to plans, SCM wants Xerox to disclose its short and long range plans for the manufacture and marketing of plain paper copiers (§ 52). As to personnel, SCM wants Xerox enjoined from enforcing provisions of employment contracts alleged to prevent Xerox employees from engaging in xerographic activities following termination of their employment with Xerox (§ 53).

The claims concerning plans and personnel plainly do not require a hearing, since in no event would a preliminary injunction issue to provide such relief. The disclosure of short and long range plans of one corporation to an actual or at least potential competitor is not only a significant change in the status quo, but such an irrevocable one as to be far beyond the legitimate scope of a preliminary injunction. If Xerox prevails on the merits, it will not be able to return its plans to their current position of secrecy. As for the employee covenants not to compete, Xerox has formally represented by letter dated March 8, 1974, that there are no such covenants presently in effect and that none will be entered into during the pendency of this action. That undertaking, if it does not moot the claim for preliminary injunctive relief with respect to such covenants, at least makes it apparent that SCM can suffer no irreparable injury for lack of such relief. Moreover, SCM has made no claim that it is presently precluded from obtaining the unrestricted services of a former Xerox employee because of a non-competitive covenant.



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There remains the SCM claim respecting Xerox patents—a preliminary injunction to prevent Xerox from suing SCM for patent infringement and, conversely, a license permitting SCM to use the Xerox patents. Several factors combine to make it unnecessary to hold a hearing to determine whether such preliminary relief should be considered.

First, the claimed relief is a substantial change in the status quo. The status quo to be preserved by a preliminary injunction is not only the respective situations of the parties "when the suit began," *Hamilton Watch Co. v. Benrus Watch Co.*, 206 F.2d 738, 742 (2d Cir. 1953), or "ante litem," *Washington Capitols Basketball Club, Inc. v. Barry*, 419 F.2d 472, 476 (9th Cir. 1969), but also the "last uncontested status which preceded the pending controversy," *Westinghouse Electric Corp. v. Free Sewing Machine Co.*, 256 F.2d 806, 808 (7th Cir. 1958); see also *Interphoto Corp. v. Minolta Corp.*, 417 F.2d 621 (2d Cir. 1969); *Warner Bros. Pictures, Inc. v. Gittone*, 110 F.2d 292 (3d Cir. 1940). Preservation of the last uncontested position generally requires some alteration of the situation encountered by a court at the moment it issues relief; it must undo the action that has occurred since the parties were in an uncontested position. However, such relief is generally granted in a context where the recently occurring action is specific, such as the cancellation of a distributorship in *Minolta*. In a sense, of course, the last uncontested position to which SCM would like to return pending determination of this lawsuit is the state of facts existing before Xerox had the monopoly power SCM alleges it has acquired. But dismantling a monopoly is not simply a more extensive use of equitable power than preventing the cancellation of a distributorship, it is of an entirely different character, and it is not surprising that SCM cites no case where such preliminary relief has been accorded. At no time prior to this litigation did SCM have

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a right to the Xerox patents or to immunity from an action for infringing them. If such a right or immunity exists, it will arise only because Xerox is shown to have violated the antitrust laws in the acquisition or maintenance of its patented technology. The relief SCM seeks is appropriate only after a monopolization case has been established and suitable remedies are considered to undo the effects of the monopoly. To grant the relief preliminarily would not return the parties to an uncontested position, it would create new positions that are appropriate only if SCM wins this lawsuit. That is not the function of a preliminary injunction.

Secondly, any claim SCM might make that it will suffer irreparable damage for lack of such extraordinary preliminary relief is undermined by its acknowledged capacity to bring a plain paper copier onto the market. At the hearing on December 7, 1973, SCM reported its transaction with Van Dyck Research Corp. to purchase \$45 million of copiers developed by Van Dyck. Furthermore, SCM reported that it will be able to market by 1975 its own plain paper copier. It may well be that if Xerox has the monopoly power alleged by SCM with respect to the marketing of plain paper copiers, SCM will sell both the Van Dyck machine and its own machine to a smaller share of the market than it would enjoy in the absence of the alleged monopoly. But the reduction in market share, as distinguished, possibly, from inability to enter the market at all, is plainly compensable in money damages. In any event, access to the Xerox patents will not enable SCM to avoid the effects of Xerox's alleged marketing monopoly.

Finally, Xerox has further undermined whatever claim of irreparable injury SCM might allege by voluntarily undertaking several commitments with respect to its patents. By letter dated March 8, 1974, Xerox has agreed (a) not to seek a preliminary injunction against SCM or its

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suppliers for infringement of any patents concerning plain paper copiers, (b) not to commence any patent infringement action concerning plain paper copiers against SCM or its suppliers without ninety days' written notice to SCM, (c) not to commence any patent infringement action concerning plain paper copiers against any end user of copiers manufactured or sold by SCM, and (d) to grant SCM, during the pendency of this lawsuit, a 4% royalty license under any patent that covers either the Van Dyck machine or the machine SCM is developing. The geographic scope of these commitments is the United States, Canada, and Latin America. As to countries in which Rank Xerox has patent rights, Xerox makes the same commitments "to the extent that Xerox has the legal authority to accomplish them." Without further exploration of this phrase, it must be assumed, for purposes of the pending issue, that the Xerox undertakings are not necessarily sufficient to give SCM worldwide protection. Nevertheless, they are of sufficient dimension to erode any claim of irreparable injury below the level where equitable relief would be appropriate.

To all of these considerations SCM responds that the Xerox monopoly position is so entrenched that the passage of time between now and trial of the merits will enable Xerox to solidify its position in ways that will irreparably injure prospective competitors like SCM. And SCM also urges the claims of the public interest in having the alleged monopoly power checked before it becomes further entrenched. While these considerations would be weighty in determining the appropriateness of a hearing on and the issuance of some forms of temporary injunctive relief, they do not justify further consideration of the specific forms of relief sought by SCM in its amended complaint. Before SCM can perform a role as a private attorney general to seek preliminary relief that will arguably serve the public interest, it must state a claim that it is entitled to appro-

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priate forms of preliminary relief. Because the relief it seeks would alter the status quo in ways beyond the function of a preliminary injunction, and because it cannot show irreparable injury for lack of the particular forms of preliminary relief it seeks, its motion for a preliminary injunction is doomed to failure, and a protracted hearing to explore the probability of success on the merits is not needed. The motion for a preliminary injunction is denied.

Dated at New Haven, Connecticut, this 17 day of April, 1974.

JON O. NEWMAN  
United States District Judge



**Notice of Appeal—Filed May 1, 1974.**

**UNITED STATES DISTRICT COURT**

**FOR THE DISTRICT OF CONNECTICUT**

**Civil No. 15,807**

**NOTICE OF APPEAL**

**SCM CORPORATION,**

**Plaintiff,**

*against*

**XEROX CORPORATION,**

**Defendant.**

Notice is hereby given that SCM Corporation, plaintiff above named, hereby appeals under 28 U.S.C. § 1292(a)(1) to the United States Court of Appeals for the Second Circuit from the decision and order (denominated as "Pre-trial Ruling No. 6") entered in this action on the 19th day of April, 1974, which denied plaintiff's motion for a preliminary injunction as a matter of law and without holding an evidentiary hearing as requested by plaintiff.

Dated: May 1, 1974

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Corporation

UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

SCM CORPORATION,

Plaintiff-Appellant,

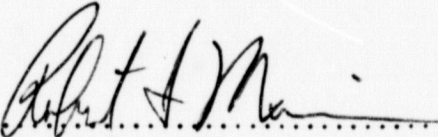
-against-

XEROX CORPORATION,

Defendant-Appellee.

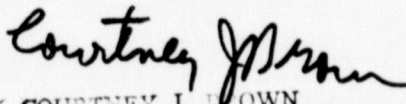
State of New York,  
County of New York,  
City of New York—ss.:

Robert S. Marin , being duly sworn, deposes  
and says that he is over the age of 18 years. That on the 1st  
day of July , 1974, he served four copies of  
Appellant's Appendix on  
Kaye, Scholer, Fierman, Hays & Handler, the attorneys  
for Defendant-Appellee by causing same to  
be delivered to and left  
~~by delivering to and leaving same~~ with a proper person in charge of  
their office at 425 Park Avenue, New York, N.Y. 10022  
in the Borough of Manhattan , City of New York, between  
the usual business hours of said day.

......

Sworn to before me this

1st day of July , 19 74



COURTNEY J. BROWN  
Notary Public, State of New York  
No. 31-547,290  
Qualified in New York County  
Commission Expires March 30, 1976